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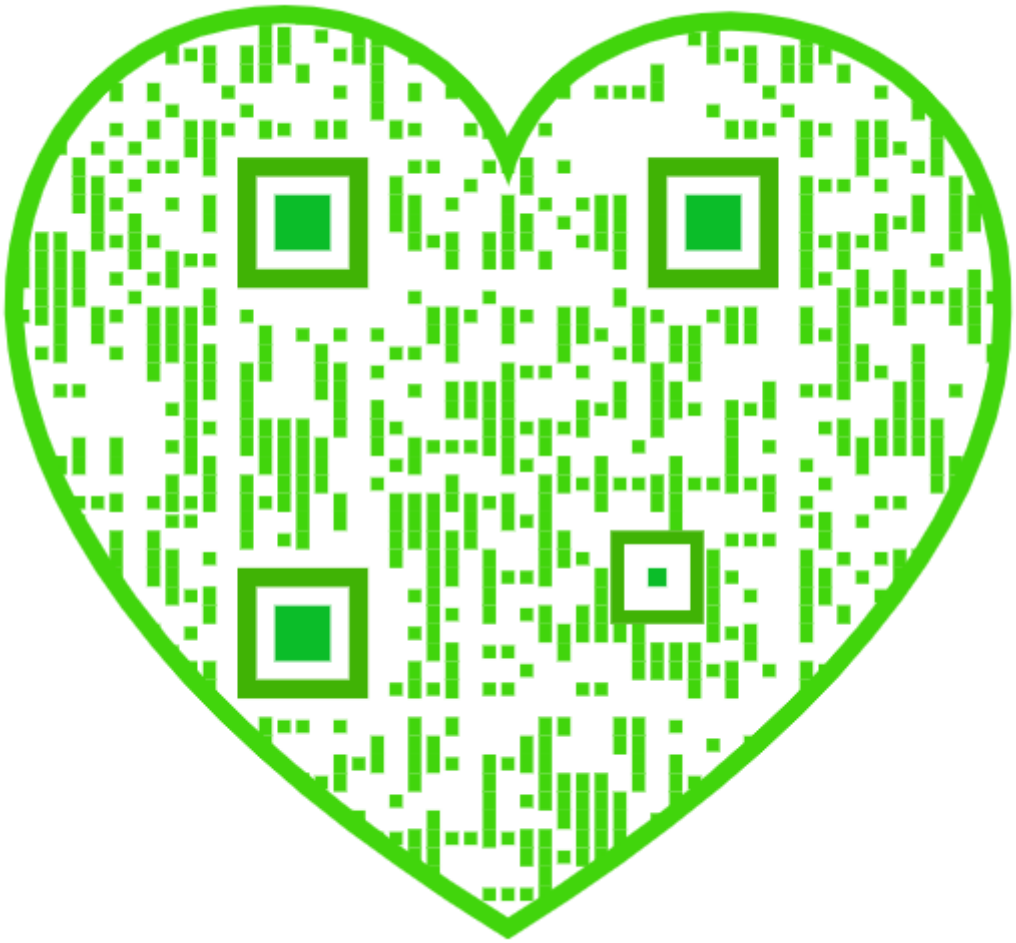

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PRACTICAL BANKING

NEW AND ENLARGED

BY

ALBERT S. BOLLES, PH. D., LL. D.

LECTURER ON BANKING IN THE UNIVERSITY OF PENNSYLVANIA AND ON COMMERCIAL LAW AND BANKING IN HAVERFORD COLLEGE; AUTHOR OF "BANKS AND THEIR DEPOSITORS." "BANK OFFICERS," "BANK COLLECTIONS," "THE NATIONAL BANK ACT AND ITS JUDICIAL MEANING," AND "THE FINANCIAL HISTORY OF THE UNITED STATES."

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NEW AND ENLARGED.

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BY

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BANK STATIONERS.

TO

LYMAN J. GAGE,

THIS BOOK IS DEDICATED

AS A TOKEN OF THE AUTHOR'S REGARD FOR HIS FRIENDSHIP

AND ADMIRATION FOR HIS RARE UNION

OF A KNOWLEDGE OF

THE HISTORY AND THEORY OF BANKING AND FINANCE

WITH EMINENT SUCCESS AS A BANKER

AND FINANCIER.

PREFACE

TO THE ELEVENTH EDITION.

In the preface to the first edition was fully set forth the origin of this work. As there explained, a considerable portion of Part I, relating to Banks of Deposit and Discounts, was derived from the *Bankers' Commonplace Book*, a work written by an experienced bank officer and possessing great merit. Since his day, however, many changes have been introduced into banking, and his work, though still worth reading, does not adequately deal with the conditions that now confront the banking world. So, nearly all taken from that work has been omitted, except a part of the chapter relating to the duties of the president and a few paragraphs pertaining to directors and discounting.

Most of the chapters in Part II, treating of savings banks, were written by Mr. Charles E. Sprague, president of the Union Dime Savings Institution of New York, and these have been revised by him and contain, it is believed, every idea in the best savings bank practice.

THE AUTHOR.

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PART I.

DEPOSIT AND DISCOUNT BANKING.

PRACTICAL BANKING.

CHAPTER I.

THE ORIGIN, CLASSIFICATION AND UTILITY OF BANKS.

The term bank is supposed to be derived from banco, the Italian word for bench, the Lombard Jews in Italy having benches in the market-place where they exchanged money and bills. When a banker failed, his bench was broken by the people, and he was called a bankrupt.

This derivation of the term, however, is probably wrong. "The true original meaning of banco," says MacLeod,* "is a heap, or mound, and this word was metaphorically applied to signify a common fund, or joint stock, formed by the contribution of a multitude of persons."

A brief account of the first banking operations in Venice will dispel the haze enveloping this subject. In 1171 the financial condition of Venice was strained in consequence of the wars in which the people were engaged. The great council of the republic finally determined to raise a forced loan. Every citizen was obliged to contribute the hundredth part of his possessions to the state, receiving therefor interest at the rate of five per cent. The public revenues were mortgaged to secure the interest, and commissioners were appointed to pay the interest to the fundholders and to transfer the stock. The loan had several names in Italian, Compera, Mutuo, but the most common was Monte, a joint stock fund. Afterward, two more loans were contracted, and in exchange for the money contributed by the citizens, the commissioners gave stock certificates bearing interest, and which could be sold and transferred.

*Principles of Economic Philosophy, vol. 1, p. 547.

At this period the Germans were masters of a great part of Italy, and the German word Banck came into use as well as its Italian equivalent Monte. The Italians ere long changed Banck into Banco, and the public loans or debts were called Monti or Banchi. Thus an English writer, Benbrigge, who wrote in 1646, mentioned the "three bankes" at Venice, by which he meant the three public loans, or Monte, that we have described. Likewise Count Cibrario, who wrote a work on Political Economy in the Middle Ages, says: "It is known that the first Bank, or Public Debt, was erected at Venice in 1171." Other proof of the same nature might be added to show that Banco in Italian meant a fund formed by several contributions; and that the Bank of Venice was really the first funding system, or system of public debts.

"A banker," says Gilbart, "is a dealer in capital, or, more properly, a dealer in money. He is an intermediate party between the borrower and the lender." This definition, however, only applies to a banker who receives and lends the money of others; very generally he is the owner of money which he also lends. Indeed, if he were not, others would not be inclined to deposit their money with him. Their confidence in his integrity and ability is measured by his wealth. This is a guaranty that theirs will be prudently used and returned.

An incorporated or public bank, like a banker, is an institution for receiving and lending money. This always has a capital of its own to lend, besides the deposits received from individuals.

Banks are classified in several ways. The first division is into private and public or incorporated banks. A private bank is conducted by an individual, or by several individuals as partners. It was the earliest form of banking and the capital they used belonged to themselves. The practice of receiving deposits of money from others and lending them did not begin until a later period.

Public or incorporated banks are divided into two classes: National banks organized and existing by the laws of the United States, and state banks, authorized and doing business by the laws of the states in which they are located. The latter may be divided into three classes: banks of deposit and discount, savings banks, and trust companies.

Having classified these institutions, their utility may be considered.* One of their earliest uses was that of a depository for money. Not many years ago a Western farmer received nearly ten thousand dollars in specie from the government in payment for bonds. Not regarding a bank as a safe place for depositing his gold, he put it in the bottom of a barrel in his wood-shed, filling it nearly full of ashes, and the remainder with straw, making a nest at the top which he filled with

*On this subject Mr. George S. Coe, president of the American Exchange National Bank, delivered a noteworthy address before the American Bankers' Association, in 1882, answering the question, "What Important Function Do We, as Bankers, Perform?" See Banker's Magazine, vol. 37, p. 170.

eggs, and put in the custody of a setting hen. After waiting a couple of weeks he thought one Sunday, when having nothing else to do, that he would examine his highly original safe in the wood-shed. The old hen was decidedly cross, and did not enjoy his presence. Still she felt better than he did as soon as he had plunged his arm down the side of the barrel and found that some one had kindly relieved him of his gold. Probably he will think more highly of banks as places of deposit in the future. The need of a safe place of deposit gave rise to the leaving of valuables with the goldsmiths of London. Robberies would rapidly multiply if much money was kept in houses. The depositing of it with banks spares many a house from the invasion of robbers.

A profit is derived from the payment of interest on deposits. It is true that in this country the practice has not become general among banks of deposit and discount to pay interest on deposits, but the practice is increasing and will probably become as general as it is in the leading European countries.

Again, the payment of interest on deposits is a stimulus to accumulate money. Were there no savings banks, a large portion of the savings deposits in them would never have been collected and saved. Probably the majority of these depositors have no thought of collecting enough to buy a bond or a few shares of stock. Such a process of saving is too elaborate for them. But when a way is provided for adding to their savings by simply depositing their money in a bank, thousands, nay, millions, of persons in our country have availed themselves of the opportunity.

An important service performed by banks is the lending of money to persons who wish to borrow. Loans are made chiefly to persons engaged in manufactures, trade, commerce, and other business pursuits. Money is especially needful to them to conduct their enterprises. Without it they could not maintain their place in the world of business. The credit that some mercantile houses have is worth more to them than the capital they actually possess.

Another utility is that banks save the transmission of money from one part of the world to another. Not only is the risk of loss from robbery and other accidents avoided, but the money is kept in more active circulation. Were it actually sent from place to place to effect all the payments that are daily made, a large amount would be locked up in the process of transportation, which otherwise might be more actively employed.

There is a saving of time in paying large sums by check or bills of exchange. To count the money would be a long process in making the many heavy payments of our time.

There is less danger of error when checks are used than when money is paid. Of course, there are some risks attending the use of checks. But in paying with money there is also the risk of getting counterfeits, light weight, or otherwise defective coin.

Besides, checks constitute a good record of one's expenditure. If an individual deposits all the money he receives with a bank, and draws it out by checks, his check-book contains the story of his income and expenditure. For persons who do not have strict business habits, this mode of keeping their money and paying their bills is especially worth observing.

A bank account is very useful if a payment is disputed. Individuals do not always take receipts for the money they pay, and even if they do, sometimes lose them. If a bill is paid, but no proof of the fact can be furnished and payment is again demanded, too often it must be paid a second time. But if a check for the bill is given, this is the best kind of evidence of payment.

If one has an account with a bank it is often a good channel for getting useful business information. If one has money to collect or to remit, a banker, when asked, will state the best way of proceeding. Not infrequently bank officials give valuable advice pertaining to investments and other matters.

A bank is a means for organizing capital whereby its full power may be utilized. The function of a bank in storing up capital, and thus increasing its power, may be likened to the damming of a stream. By storing up the vagrant force it may minister in a very potent way to advance the material prosperity of man. In like manner, banks, by collecting the numberless little rills of capital, which otherwise would minister much less effectively to human needs, perform a most valuable service to commerce, for, by accumulating them, a great force is created which is always needed in production and exchange.

CHAPTER II.

THE HISTORY OF STATE AND NATIONAL BANKING.

A brief outline of the origin and principal changes in American banking is a fitting introduction to a description of the business itself. And as state banking is the older, and forms the basis of the national banking system, we shall begin with a description of the Bank of North America, founded in Philadelphia in 1782, during the dark days of the Revolution. Its creator was Robert Morris, the superintendent of finance, the one man whose personal credit and financial ability shone conspicuously amid his surroundings. Believing that such an institution would minister effectively to the pressing needs of the government, a capital was formed of $400,000, and of this amount, $85,000 was paid in specie. The bank was incorporated by the name of the President, Directors, and Company of the Bank of North America; and the states were recommended to pass laws forbidding the creation of any rival institution during the war. Its notes, which were payable on demand in gold and silver, were receivable in payment of taxes, duties and debts of the United States. To the superintendent was given the right of inspection. The people had been deluded with such copious supplies of paper money by the states and the Continental Congress that, notwithstanding every effort to circulate the issues of the bank at par, they fell from ten to fifteen per cent. below in the Eastern states. After a few months the credit of the bank revived, and its notes were regarded with more favor. No wonder that the people, after their costly experience with the state and continental issues, feared this new paper creation. They wanted no more paper money until the remembrance of their losses from taking it had passed away. Had Morris not been watchful to preserve the specie foundation of the bank, and redeemed its issues whenever they were presented, its life would have been short. Yet its supply of specie was small, and on more than one occasion during its early days, persons were followed, after getting specie for their notes, and besought to return it. To strengthen the belief of visitors in its metallic resources, clerks were employed to raise kegs of coin from the cellar in ways that could be easily seen and by less obvious ways put them back again. This revelation may make a somewhat unpleasant impression on our readers concerning the methods of the managers of the bank,

but those were serious times, and no one ever suffered from the practice of this novel method to create confidence in the bank's ability to pay its obligations.

As soon as confidence was fully gained, the course of the bank was free from difficulty. It divided handsome profits that ere long were a cause of jealousy to outsiders. This grew until they united and attempted to organize another bank. The Bank of North America disputed the field. Its opponents were strong enough to effect the repeal of the charter that had been granted by the legislature of Pennsylvania, yet the bank continued to thrive under the charter previously granted by the Continental Congress. Public sentiment, to some extent, favored the opponents of the existing bank, for they feared its power. In those days a corporation was a monopoly, and though in form was similar to later corporations, greatly differed from them in spirit and purpose. The modern corporation, except in a few cases, is no longer a monopoly like the Bank of England, or the monopolies granted by the Stuart kings. Privileges are no longer granted which others cannot obtain on similar terms. The contest, however, continued, many believing that the public would fare better with two banks than with only one. Suddenly the strife ended; the stock of the Bank of North America was increased and taken by the projectors of the rival bank, and for several years longer it alone continued to occupy the field.

The next bank established in the United States was the Bank of New York—the creation of Hamilton. It was chartered in 1784. Its success was immediate, as one might imagine, with no rival in that city. Its great profits, however, tempted others to petition to the legislature for authority to establish another bank. For several years the attempt was annually made, defeated and renewed. The leading spirit in the movement was Aaron Burr, Hamilton's great rival. Finally Burr introduced into the legislature the charter of a water company, to supply the people living in New York city with water. A very worthy purpose, surely; what legislature could hesitate to grant such a request? The charter contained an innocent clause authorizing the company to lend all the money received not needed in its business to whoever desired it.* With this modest authority the water company began to engage in banking. It did indeed build a well and lay some pipes; and even to this day an annual inspection of the water supply is made by the directors followed by a dinner.

*"Under this charter, which is still in operation, the Bank of the Manhattan Company must be prepared at any time to furnish to the city of New York 450 gallons of water per minute from their well. If at any time it should fail to comply with the terms of the charter in the matter of furnishing water the bank would either have to go out of business or get a new charter. Naturally the Bank of the Manhattan Company takes good care that the tank shall never run dry nor the pumping machinery cease its working."—New York Herald.

Thus the second bank in New York city came into being. The difficulties attending its birth well illustrate the tenacity with which corporations in those early days sought to maintain their privileges. Human nature was quite the same then as now, and great profits were as unwillingly relinquished.

The next bank was established in Boston, the Bank of Massachusetts, in 1784, which is still among the leading banks of that city.

Soon after the organization of the Federal government, Hamilton, who was Secretary of the Treasury, strongly urged the creation of a national bank. Congress, heeding his recommendation, chartered the Bank of the United States in 1790. Its capital was fixed at $10,000,000. One-fourth of all the subscriptions was to be paid in gold and in silver, and three-fourths in stock issued to creditors by the Federal government for its indebtedness. The government itself subscribed for $2,000,000, that was to be paid in ten annual installments. In truth, the bank loaned the money to pay them, so that the operation simply consisted in borrowing and repaying the money. The board of directors consisted of twenty-five persons. The bank could lend on real estate security, but own only enough whereon to build banking-houses, or such as might be conveyed to satisfy loans previously made. The bank had eight branches located in the principal places. Only citizens of the United States could be directors, who served without compensation. The bank was authorized to issue circulating notes without any regulation concerning the quantity of specie to be held for redeeming them. They were redeemable on demand in gold and silver. The bills were receivable in payment of all debts due to the United States, but were not a legal tender between individuals. The stock of the bank was readily taken and soon commanded a premium. The average annual dividends during its twenty years of existence were about 8½ per cent. The charter ran for twenty years, ending in 1811. Besides other sources of profit were the deposits of the government. Its need for money was so great that a few years after establishing the bank, it parted with its stock, though at a considerable premium. After the country had been swept of nearly all its gold and silver to pay the constantly accruing balances of trade against the people, the stock of the bank was also sent abroad, besides a large amount of the stock of the United States in settlement of foreign indebtedness. When, therefore, the bank came to an end, the larger part of its stock was held in other countries.

During these twenty years many state banks had been created. Their capital and other resources were much smaller than those of the United States Bank, nor did they command as much confidence. Not only did it furnish a good currency, which was everywhere taken, but also set the pace for other banks to follow. Its conservative management was a check on those bankers who, except for its course before their eyes, would have been tempted to engage in wilder operations

The part thus silently played by the bank has too often been overlooked in describing its history.

It ceased at precisely the time when it was most needed by the government. War with Great Britain was then impending, and common sense should have taught all that it was the duty of the government to make preparation, not less in providing financial supplies, than in equipping the army and navy. But the enemies of the bank had never been silent from the day of its creation. Its safe currency, its honest and intelligent management, were not sufficient arguments to overthrow its opponents. So the bill introduced into the House for the renewal of its charter failed by a single vote. The fight was then renewed in the Senate, and the bank lost through the action of the vice-president, whose vote was cast against the renewal of the charter.

No sooner had its life ended than state banks sprang up everywhere like the well-known mushrooms. Many of the charters were of the loosest character. The legislature of Pennsylvania in 1812 chartered twenty-five banks that were vetoed by Governor Snyder, who clearly saw the evils that would be wrought if they were permitted to engage in banking. His efforts to stay the tide were unavailing. The next legislature contained more numerous supporters of state banks than the former, and forty-one charters were granted. A ringing veto by the governor fell on hardened ears, the charters were passed notwithstanding his veto, and thus a new crop of banks came into existence. In other cities they multiplied in the same manner. It is needless to add that they conducted their business in a thoughtless, not to say corrupt, manner. Few if any safeguards surrounded the issue of their notes. Loans were taken on the flimsiest security. Soon the banks suspended specie payments, and their notes rapidly depreciated in value; still worse, their ruin impaired the credit of the government. Its loans were taken only at a heavy discount. During 1813 and 1814 it issued stocks to the amount of over $40,000,000, that were to run twelve years at six per cent. interest, but which were sold at a discount of fifteen per cent. The succeeding year, after the war had ended, a loan for nearly $9,000,000, running nine years and bearing seven per cent. interest, was negotiated at par, while another loan for nearly $10,000,000, running only nine months, at six per cent., yielded only ninety-five per cent. of its face value. The fact may also be recalled that even while these bonds were selling below par, the government received paper money in payment worth much less than its face, so that it was constantly incurring a double loss.

In consequence of this disastrous experiment in state banking Mr. Dallas, who had been appointed Secretary of the Treasury in 1814, recommended the creation of another bank of the United States. Madison was then President. An act was passed limiting the charter to twenty years. The capital was fixed at $35,000,000, one-fifth of which was to be subscribed by the government, payable in coin or in stock

bearing five per cent. interest, and redeemable at its pleasure. The remaining stock was to be subscribed by individuals and corporations. One-fourth was payable in coin and the remainder in coin, or in the funded debt of the United States.

Five directors were to be appointed by the President, who were to serve without compensation. Branches were to be established, and the notes of the bank, payable on demand, were receivable in all payments to the United States. A penalty of twelve per cent. was prescribed for refusing to pay its notes or deposits in coin on demand. The lowest issue of notes was $5. The bank was required to transfer the public funds to different places, and negotiate public loans without charge. It was also to be the depository of the government receipts.

At first the bank did not prosper. The business of the country was depressed, and the bank suffered from lack of competent management. It was especially unfortunate that, at the outset of this second experiment in national banking, it should have had an incompetent head. In 1818, a committee was appointed to investigate its affairs, which reported that in several ways it had violated its charter, and in general had failed to bring the relief to the business of the country and the government that was expected of the institution. A new president was chosen, and $7,000,000 of specie were imported from Europe to furnish an ample currency redemption fund. The branch at Baltimore had been mismanaged, losing more than $3,000,000. Under more intelligent direction, however, public confidence in the institution was restored, its deposits increased, and it began to fulfill its proper work of regulating the exchanges of the country and of lending to borrowers. Its currency circulated everywhere, was promptly redeemed, nor were its losses larger than might have been expected of an institution doing so much business in so many places. Notwithstanding all this, not long after the induction of President Jackson into office, he announced his intention of transferring the public deposits to other banks. It is said that the origin of his intention grew out of Senator Webster's unwillingness to consent to the appointment of one of President Jackson's political friends to the office of president of the branch at Portsmouth, New Hampshire. The president of the bank, Nicholas Biddle, informed the President that the bank had never been active in politics, that its officers had been selected for their fitness, and as Mr. Mason, the present manager of the branch at Portsmouth, was a tried and efficient officer, there was no reason for displacing him. As Mr. Biddle would not yield and convert the bank into a mere political institution, President Jackson determined to remove the deposits, well knowing that this step would seriously affect the bank, the government and the country. Mr. Ingham, who was then serving as Secretary of the Treasury, refused to comply with the President's wishes. Both branches of Congress considered the question and resolved that their removal was inexpedient. At a later period Mr. Ingham was succeeded by Louis

McLane, of Baltimore, who also declined to remove them. He was then bidden to step aside and a third Secretary was appointed, Mr. Duane, who was quite as stubborn as his predecessors. Declining either to remove them or to resign, President Jackson removed him. Finally he succeeded in finding in the person of Roger B. Taney, his Attorney-General, a man who was willing to execute his wish. The deposits were removed and not long afterward he received his reward, the President appointing him Chief Justice of the Supreme Court of the United States.

The removal of the deposits was regarded with disfavor by nearly all business men of the country; indeed, by all except the most violent partisans and personal friends of the President. The deposits were put in state banks, many of which were managed by his friends, persons allied to his party. While selecting them with reference to their party preferences, doubtless the Secretary of the Treasury tried to select those that were supposed to be in sound condition. But the end of this politico-financing was not far off. A business panic burst out, men failed everywhere, the banks went down in the general crash, the government was unable to get its deposits, and President Jackson's successor, Mr. Van Buren, was obliged to convene Congress and tell the sorrowful tale, while that body was obliged to borrow money to pay the ordinary expenses of the government. Such was the result of Jackson's "humble effort," as he styled it, to regulate the currency and banking for the people.

Another plan was now invented for keeping the government deposits—the sub-treasury system, which has been in use ever since. We shall not attempt to discuss its merits or defects; two opinions are held concerning it, and our readers who may wish to know these will find them fully stated elsewhere.*

To return to the state banks. The second United States bank lived its appointed time and ceased to be. Once more the state banks occupied the entire field, and rapidly multiplied. Generally, the charters of the banks in the Eastern states were more conservative than those issued to the banks in the Western and Southern states. An example or two may be given to illustrate what kind of charters was issued in those days. A law was passed by the state of Kentucky requiring the banks in that state, before opening doors for business, to have a specified amount of specie in their vaults to redeem their circulation. A bank, therefore, to comply with the law must obtain the specie, and make proof of the fact, and then a certificate was granted by a proper state official authorizing it to begin operations. As many persons determined to organize banks under this law, an agent was sent to New York to buy enough specie to comply with the law in organizing a

*See The Independent Treasury System, by David Kinley, and the chapter on that subject in Bolles' American Finance.

single bank. The specie was properly deposited with the first bank organized, the certificate above mentioned was granted, its doors were opened, and then the specie was promptly withdrawn and deposited with another, where the performance was repeated, and then with another until the circle was completed and the certificates obtained, and then the specie was returned to New York and sold. Thus with a small amount of specie the banks had been legally born and were ready for business. They flourished, too, for a while, so long indeed as no one wished specie for their notes. It is easy enough to issue notes if others will take them; the trouble comes when payment is demanded. So the banks found out. When some noteholder came in and demanded a few real, specie dollars, which could not be paid, then the cat put in his unwelcome appearance. Others soon came and demanded payment of their notes, and the bank was obliged to close doors. The story of its failure spread, and the whole series of banks, that were nothing but windy structures, speedily collapsed. There had been no examination of these so-called banks, no limit had been put on the amount of notes they might issue, and their life was short. Had they lived longer they probably would have wrought still greater mischief. We might add that in those days the business was usually conducted by men without banking experience, who knew not how to lend money, nor to keep books, or the worth of a good banking system.

Besides, the easy method of getting bank-notes, by simply printing and signing them, tended constantly to an excessive issue. A bank acquires profits, not by keeping, but by lending its capital, and the more that can be lent, properly secured, the greater the gain. So, during this long period, until the adoption of the national banking system, or while the system of cheap and easy bank issues existed, the country was deluged with them. This was a repetition of English experience. If anything can be clearly proved in the history of paper money issues it is this—the more easily they can be made, the larger is the quantity pushed into the stream of circulation.

Notwithstanding this experience in Kentucky and other states, for many years banks were often organized without the contribution of a single dollar. The shareholders organized, gave their notes to the bank for the sums needful to pay for their stock, set the printing press to work making notes, received these in exchange for their own notes, and then transferred them back to the bank in payment for their stock. Thus all that banks often had to lend was their own notes; they held no real capital. Hundreds of banks were organized with not a dollar of gold or silver, or even the notes of other banks in good standing. Their stock in trade consisted wholly of their own notes—pure, unadulterated credit resting on nothing. This was the radical side of state banking in the olden times—a bank issuing simply its own notes.

A bank thus organized, as might be expected, would be as loose in its method of lending as in creating its credit. And so in truth were many of these institutions. Little thought was taken of the security given for their loans. In many parts of the West land was a favorite security, to which a speculative valuation was given many times exceeding its real worth. In short, the history of state banking, especially in the West, for many years was most disastrous to all concerned. The few banks that conducted their business in a conservative manner were the exceptions.

At last, this experiment taught the public something, and legislatures began to hedge banks around with limitations. In some of the states they were required to hold a specified amount of reserve to answer the calls of depositors. Other limitations related to the kind of money forming their capital. In some states shareholders were forbidden to borrow money from their banks and pledge their stock as security. This was to prevent them from setting their banks afloat without money. Another restriction was in the amounts they could lend to individuals. Thus from time to time the system was improved and rendered more worthy of confidence.

New plans were also devised to secure noteholders. One of these was known as the safety-fund system, and was first tried in New York in 1829 during the administration of Governor Van Buren. The plan, it is said, was suggested by Joshua Forman, of Syracuse, who derived it from the regulations of the Hong merchants in Canton. At that time a considerable number of them received the exclusive privilege from the government of trading with foreigners, but all were made liable for the debts of any one or more of the number who failed to pay them. The New York system consisted of a fund, composed of annual contributions by the banks of one-half of one per cent. of their capital, which were deposited with the state treasurer. They were required to do this until the accumulation amounted to three per cent. of the capital of each bank.*

Another mode of redeeming bank notes was adopted in New England, and is worthy of description because the present mode of redeeming the circulation of the national banks is essentially the same. This was known as the Suffolk bank system. Every bank in New England kept a deposit with the Suffolk Bank of Boston, and as its notes floated into that city they found their way into the Boston banks, and were then taken to the Suffolk Bank and exchanged for its own or other acceptable notes, or specie.

When this system was at its height, the Suffolk Bank took care of the circulation of nearly four hundred banks. It was secured by the current balances of these banks, which, it was expected, would be sufficient for that purpose, and a permanent deposit of about three

*White's Money and Banking, p. 339.

thousand dollars on which the Suffolk Bank paid no interest. This fund at one time exceeded one million dollars, which it could lend to the best advantage, as the deposits were of a permanent nature. The daily balances often footed up as much more, and were also a source of considerable profit. By this system the issue of notes by the New England banks was constantly checked, for whenever a bank attempted to increase its circulation very considerably, its notes were sure to move toward Boston all the more quickly and be presented for exchange at the Suffolk Bank. Thus, soon coming back to their home, the circulation of every bank in that section of the country was kept within reasonable limits.

After the failure of the safety-fund system in New York, another mode of securing the circulation of the banks in that state was attempted. This consisted in depositing the bonds of the state and other specified securities with the state controller at Albany as a basis for bank note issues. This system was a great improvement over any other that had been tried, and became so firmly established that during the panic of 1857, when the banks of New York were unable to pay specie for their notes over their own counters, they did not depreciate because their holders knew that the security was as good as could be desired. So, notwithstanding the inability of the banks to pay their notes while the panic continued, they circulated quite as well as before. Confidence in their ultimate payment had not been destroyed or even impaired.

This system has been often criticised; it is said to be unscientific because it is not self-adapting to the changing wants of business; but whatever truth there may be in this criticism, it must be admitted that it was a great improvement over the systems that had been tried before. These were truly elastic, automatic, could be easily worked to supply all the wants of business. As we have seen in this brief outline, every borrower could be accommodated readily if the printing press was in order, the printer himself on hand, and the supply of paper ample. Those were the only conditions. The system was indeed excessively flexible. It was too easy to accommodate borrowers, and the constant tendency was to over-accommodate and lose. Experience clearly proves that the system finally adopted by New York is preferable to any of its predecessors. Moreover, the central idea of a circulation practically fixed or based on adequate security has found favor in Great Britain, and no one in that country ever demands a change. Since 1844 the English system has been maintained, the fundamental principle of which is in some most important respects quite similar to that on which the banking system of New York finally rested.

We have thus explained at some length the final plan adopted in New York because the circulating note feature of the national banking system, adopted in 1863, was based primarily on the experience of New York. In creating the national banking system two ends were pro-

posed: First, to create a market for the bonds of the government—at that time a very large borrower; and, secondly, to create a bank note circulation that would be taken everywhere. The people had suffered severely from defective state bank systems, or lack of systems, outside the Eastern states. It was often difficult to decide whether the circulation of a bank was safe to take or not. Banks were frequently failing, even in good times. The proof of this condition of things is to be found in a journal, Thompson's Bank Reporter, the object of which was to give the values of the notes of banks throughout the country. Bank notes possessed such a varying value that no banker or merchant thought of taking a bill far away without looking in this book and ascertaining whether the issuer had failed, or what was the present value of the note offered. A regular business in those days consisted in buying bank notes at a discount and presenting them for payment. Mr. Thompson himself made a fortune in this business. He would buy at varying rates the notes of Western banks that had accumulated in New York, Boston and other cities, and then send his agents to the various issuers, or to their assignees, and endeavor to get something for them* This business was somewhat hazardous, all kinds of settlements were made, lands, houses, cattle, grain, whatever could be had was taken in payment. What a strange business, dealing in the notes of broken-winded banks, compared with the present bank note circulation!

*The following incident was told by Mr. Thompson a few years before his death to a reporter of the New York Herald:

"Here is an illustration of the way in which the redemption of the wildcat or stumptail money was accomplished. I had the handling of an immense amount of it, and sent my agents out to redeem it. I sent out my son Samuel and a clerk, with a carpetbag full during the panic of 1854 and 1855. In his journeyings my son came to the town of Lafayette, Ind., having several thousands on the banks there. He had a colonel attachment to his name, from being on the staff of Governor Myron H. Clark, with that rank.

"So the daily papers of that town had it out the next morning that Colonel Sam Thompson had come out from old John Thompson, of New York, to clean all the specie out of Lafayette banks, and the editor thought it would be a good notion to give Colonel Sam a bath in the Wabash, whose waters were not very deep, but very wet.

"My son saw the people nudging each other at the hotel tables in the morning and pointing at their newspapers and eyeing him with great interest. Buying a paper he found that what made him such an attraction was the following from the Lafayette Courier: 'We will assist in putting the gentlemen through a course of hydropathic treatment in the Wabash, and contribute to purchase them a suit of clothes made from the extract of pine and goose down.'

"My son—although a soldier, a man of war, a real colonel, afterward a general of 'millish'—concluded that 'discretion was the better part of valor' and took the next train for Chicago. He there made sale of his Indiana stumptails at a fair rate, and left that particular collection to the Chicago purchaser—thinking that Western men understood each other and were better fitted to do business with each other than Eastern men were to deal with them."

It speedily came to an end with the adoption of the national bank system. In the strong light of this experience the people were desirous of having a better currency; and this aim of the national banking system was hailed with universal delight.

In preparing the bill establishing that system the banking laws of all the states were carefully considered; and from them many things were taken. This is one reason for reviewing the most important changes in state banking prior to the adoption of the national banking system, that its relation to them may be better understood. The mode of issuing notes, as we have just learned, was based on the system then in vogue in New York, and which experience had proved to be superior to any other. The national banks were required to keep a reserve to answer the calls of depositors, and this feature of the act was drawn from the laws of Massachusetts and Louisiana. In Louisiana some very stringent requirements had been enacted only a few years before relating to the keeping of bank reserves growing out of numerous bank failures in that state. The right to keep a portion of a bank's reserve with another bank was adopted from the law of Ohio. Thus, the law was a kind of mosaic, composed of the best features of all the banking laws in the various states.

A few more points are worthy of special mention. First, the national banks were denied the right to make loans on real estate security. Past experience had shown that real estate security was often very deceptive. Fluctuations had been great, and except where wide margins had been left for depreciation losses had often happened. By lending their money in this manner, in many cases it had become permanently invested; too permanently, perhaps; all had been lost.

Another reason was, the banks were created primarily to serve the interests of commerce. They were not authorized to serve investors. The savings banks and private individuals have long fulfilled this function, and it was never intended by establishing the national system to narrow their field. National banks were authorized primarily to keep their money in active circulation, and this would not be done if they were permitted to engage in real estate operations. It was expected that they would make loans for short periods, thereby retaining a more perfect command of their money, and accommodating more persons.

To these reasons another may be added, the power of the banks was feared if they became permanent possessors of the land. Congress was jealous of the power of corporations, and so the permanent ownership of land by the banks was rigidly restricted to such small portions as might be desired for strictly banking purposes—the erecting of bank buildings. They were indeed permitted to take land as subsequent security for loans, but whenever this is done they are required within a comparatively short period to part with it and thus limit their permanent ownership to small pieces. Had they been endowed with an

unlimited right of ownership, by this time they might have become possessors of a vast domain, like the church establishments during the Middle Ages. There is no danger of individual ownership, because the life of man is short and his possessions pass to other persons; but the case is otherwise when land is purchased by a corporation. Endowed with a long life, unless overtaken by bankruptcy, land once acquired by it may be permanently retained.

The national banking act, it is true, prescribed only twenty years as the period of life for national banks, and it may be that at the time of devising the system, its creators believed it would cease at the end of that period. Whatever they may have thought, before the expiration of the twenty years, an act was passed providing for their extension for another period of similar length, and many of the national banks therefore are now in their second lifetime. Will the end come with forty years? Perhaps one man's prediction is as good as another's, but we venture to prophesy that the need of them will be quite as great at the end of forty years as it was in 1883.

In the beginning, the national banks organized in New York or any other city were required to be numbered first, second, third, fourth, and so on. The act also provided for converting state banks into national bank associations. The state banks, however, were unwilling to blot out their names. For example, the stock of the Chemical Bank of New York stood at the top of the list, because it had accumulated a very large surplus, greatly exceeding that of any other bank in the country. With a small capital in proportion to its surplus, and wisely managed, the bank had attracted more deposits than any other in the city. Like many others, it was unwilling to give up the word Chemical and be known simply as the seventh, eighth or ninth national bank of New York. To do this was to impair its great prestige in the world of business.

This requirement concerning the change of name was simply a regulation of the Treasury Department, and not a requirement of law. Again and again bankers went to Washington and urged Mr. Chase, the Secretary of the Treasury, to modify his order and permit them to retain enough of their old names to preserve their identity. But the Secretary in this, as in other matters, was long impervious to reason. Finally one of his most intimate friends from Philadelphia visited him on the same errand. After a little he said to him, "Mr. Secretary, you are an eminent lawyer, and very likely after you have retired from the great office you now hold you may go to Cincinnati, the leading city of your state, and engage in the practice of law. Suppose a regulation of that city existed whereby you could not be known by your name, which stands for so much, but only by a number, 387, for example; what would you think of such a regulation?" The Secretary indignantly replied, "You insult me, sir; you insult me!" and passed up and down the room greatly agitated. But the question went to the center,

and the Secretary gave an order permitting the banks to retain enough of their names to preserve their identity among men. Then the state banks rapidly changed into national banking associations.

There was another feature in the law, as much disliked by some bankers as it was strongly favored by others, the keeping of a reserve. For a season this requirement kept many a bank out of the system. Those who were unwilling to comply said, "we are quite as wise as the lawmakers; we know how much reserve we ought to keep; the government ought not to regard us as children, incompetent to attend to our business, and say how much money we must keep on hand to answer the calls of depositors." But the more conservative bankers upheld this feature of the law. The opposition, however, was so great that the first intention of those having charge of the bill was considerably changed. They proposed that the amounts for some kinds of banks should be considerably greater and be kept at home. To make the system more popular, the amounts were reduced and the singular expedient adopted of permitting the country banks to keep a portion of their reserve with a bank elsewhere, which, as every bank well knows, is no reserve at all. This method was adopted as a kind of compromise between contending factions with the view of making the law more palatable to the banks that were unwilling to adopt the new system. It was desirable, if possible, to create an acceptable system to the banks already established because they possessed a large amount of banking capital, and by doing so the government would at once find a market for its bonds, as the entire capital of the national banks at first was invested in them.

One other feature may be briefly noticed—bank examinations. Some of the banks, notably those in the Eastern states and in New York, had been supervised by a state official, but in most of the Western states the banks had been permitted to do as they pleased, unfettered by public supervision. They were required to make annual reports to their respective state governments, but hardly anything more. This feature of the law therefore encountered fierce opposition. By many bankers the idea was regarded with disfavor. On the other hand, the more conservative ones approved this feature, believing the effect would be to make bankers more careful. It was indeed a radical departure from previous examinations or methods. The law provided for the appointment of a Controller of the Currency, and a large number of examiners. Concerning the worth of their work two opinions have always prevailed, and the question is still an open one whether their service has been of very much worth either to the banks or to the public.

Such are some of the leading features of the national bank system. It will be seen that it is a continuation or outgrowth of the systems that prevailed before; indeed, many state banks have continued to live and thrive by the side of their national bank competitors. Of

late years, the advantages formerly possessed by the national banks have been lessening, and the state banks have been gaining headway. Many of them have a larger latitude in lending money and in doing business; and in some states they are not required to keep any reserve—an obvious advantage from a banker's point of view as a mere money lender.

It is true that authority to issue notes has practically been denied them by exacting the payment of a ten per cent. tax, a tax so high as to make state bank note issuing unprofitable (which was intended) so that the law, in effect, is prohibitory. On the other hand, as the government is no longer a borrower of money, and its obligations command a premium, the profits on bank circulation, so long a great source of profit, have almost disappeared. The two systems, then, are in many regards more nearly rivals than they ever were before. Consequently, state banks are often organized as well as national ones, and the field of enterprise is divided between them.

In closing this chapter it may be added that during the last twenty years most of the states have revised their banking laws, conforming them in many ways quite closely to the national banking act. Restrictions have been imposed on banks in lending money, especially in amounts that may be lent to borrowers; in the creation and use of their surplus; in the returns that must be made to the state; in the inspection of their business by officers appointed for that purpose; indeed, the most radical differences between the different systems is in the keeping of reserves, many of the states still permitting banks to exercise their discretion about keeping them. In some, however, restrictions have been imposed quite as severe as those prescribed by the national law.

CHAPTER III.

THE ORGANIZING OF A BANK.

Preliminary to organizing a bank is the raising of the capital required by law. How is this done? There are three ways of collecting a fund for this purpose.

The first mode is through the influence of one or more persons who have the confidence of others, and who expect to manage the institution if formed. The capital of many of the banks in the country has been drawn together through the influence of two or three persons who afterward became its president, cashier or other active officer. Not infrequently it happens that some person, who has been a successful business man, solicits his friends to join him in a banking enterprise. They have confidence in his integrity and capacity, and through his solicitations are persuaded to promise him that they will take some of its stock. When he has succeeded in getting enough taken he is ready to advance a step in organizing the bank.

Another way is through the influence of a person called a promoter. This is a more modern method of raising the capital of a bank. It so happens that there are such persons who command the confidence of others and are able to persuade them to undertake business enterprises. Promoters or promoting companies have a firm footing in the modern business world. Banks, insurance companies, railway companies, manufacturing companies and other enterprises are started through their magical influence. Generally, they are men of much tact and often of considerable resource, but above all are master of the art of persuading men and of securing their assistance. Sometimes their assistance is solicited by those who have undertaken to form companies without them and have only partly succeeded, to complete their work.

The remuneration to be paid to a promoter is often a large sum, conditioned on his success. It is a personal contract between him and the persons who employ him, and should they forget their promises, or for any reasons fail to respond, he has no claim on the bank or other company organized through his efforts. His assistance may have been very valuable; the institution may never have come into existence without him; yet only the individuals who employ him are liable, the corporation is not, unless it consents to assume the contract made by

his employers; and even then a question might be raised. What consideration does the bank receive for assuming this promise or engagement? It is very questionable whether it could be held responsible to pay if any of the members objected to the assuming of the contract. The reason for not holding the corporation is that it has not received any benefit for which it has promised to pay.

Another way of forming banks is through the action of several persons in a community. Suppose a village has multiplied in numbers until the more active ones believe that a bank should be organized for the advantage and benefit of all. What these advantages are have already been described. Well knowing what a bank could do for them, the subject is mentioned from day to day, and goes the rounds like any other topic in a village community, until the interest in the proposed undertaking becomes general. When it is thus learned that a bank is desirable, a paper is prepared which it is expected persons will sign, stating the amount of capital that it is desirable to raise, and the number and amount of shares. This paper usually is very brief and may read something like the following:

We, the undersigned, desirous of establishing a bank in this village, of the capital of $50,000.00, to be composed of 500 shares, of $100 each, hereby promise to take the number of shares set opposite to our names.

The paper is circulated until the requisite amount is subscribed. Such a paper is valid among the signers as soon as the bank is organized, but until then "the subscription," says the court in a recent case, "is a mere proposition or offer, which may be withdrawn, like any other unacceptable offer."*

It sometimes happens that a subscriber fails, or is unable to pay, although promising in perfectly good faith. The national banking act provides for just such events. The fact is duly advertised, and an endeavor is made to get subscribers for the amount. Of course, the other subscribers are not required to increase their subscriptions. Very likely they would do so rather than fail to organize the bank. If none of them, or any other person, is able or willing to take the stock, the law provides for diminishing the amount of capital, and of organizing the bank with less than was first intended. If the reduction thus caused should be so great as to bring the remaining amount below the minimum limit required by law, a receiver must be appointed to wind up its affairs.†

*Hudson Real Estate Co. *v.* Tower, 156 Mass. 82.

†"In organizing a country bank the policy to be pursued is usually determined by the special object had in view by the organizers. If they are men of large means themselves, and desire to conduct the institution simply for their individual profit, they will, of course, subscribe to the bulk of the stock and control the whole affair; but if the object of the organizers is to benefit themselves as part of the general business community, and also to benefit the community at large, the course of

We have now described the preliminary operation of raising the capital to organize a bank. In many cases it is a very simple thing to raise the capital. Sometimes half a dozen persons subscribe for nearly the whole amount, and the balance by others. In other cases to get enough subscribers is a long, slow process. In still other cases an attempt is made to enlist persons in the enterprise and in the end they fail, and the institution is never born. And we may also add that many organized banks were originally private banks.*

Having found out that the money will be forthcoming when required, it is safe to proceed to organize the bank. By the national banking law

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proceeding will be somewhat different. This latter case is similar to that in which the enterprising men of a town would undertake to build a new hotel or public hall, or any other institution designed to develop the resources of the community and to be a public benefit. If such be the controlling view in organizing the bank, and from the standpoint of the public interests, such should be the controlling view, the object will be to interest as many people as possible in the prospects of the institution, and, with an eye to the future, to cut off any unnecessary competition in business. To this end the stock should be widely distributed, every one who can possibly be induced to do so taking a few shares. This makes the bank a matter of public interest and concern from the outset; every one will feel that it is his bank, and all have a local pride in the prosperity of their financial institution. These views must be modified somewhat where a bank is to be opened in a town which is already supplied with banking facilities; but under any circumstances, the more people interested in the institution the more prosperous will the institution be."—Extract from article on Country Banking in Rhodes' Journal of Banking, March, 1888, p. 227.

*In Texas, banks are often started in the following manner: "A country storekeeper enjoying the confidence of the community, and having a safe conveniently displayed, becomes the depository of his townsmen, who use his store as a place of rendezvous, where they do their talking. After a while checks on him begin floating about the country, reaching the nearest banking point, making the man's name known. Soon the city banks avail themselves of the chance and pester him with an unprofitable collection business. One thing begets another, and almost unknowingly our friend finds himself the owner of an exchange office in connection with his store. This in time grows into an independent bank, which, after a few years of existence, interests others, obtains a charter, and one nice day opens its doors as a full-fledged national bank, whose crisp, new bank notes are the pride of the county. Sometimes merchants, having made an independent fortune, sell out, and, desirous of being of some consequence in the world, or still too young to think of doing nothing, they commence the banking business in their country town, or remove to a place where they can better enjoy their own importance."—Rhodes' Journal of Banking.

*On July 5, 1897, there were 6,337,114 national bank shares. Of these 5,464,037 were held by residents of the states where the banks were located, 873,077 by non-residents, of which 21,729 were held by residents of foreign countries. The number owned by women was 1,418,542.

all the needful steps for organizing are laid down; they are also in the state laws relating to the formation and conduct of state banks. Some one who is interested in the affair makes a written application to the Controller of the Currency, at Washington, giving the name of the proposed bank, where it is to be located, the amount of the capital, and the names of at least five persons who are to be stockholders. This application should be indorsed by the Representative in Congress from the district in which the bank is to be established. It is well to accompany the application with letters from persons of prominence who will vouch for the character and responsibility of those concerned in the enterprise. In other words, the application should be so strengthened as to secure the Controller's favorable consideration. In many cases one or more of the persons interested in the proposed bank visit the Controller and explain the necessity of organizing the bank, accompanied it may be by their Congressional Representative or other person of prominence.

The Controller then inquires into the need of a bank in the place mentioned. How far he can go in denying such an application is perhaps not clearly understood. In a place, for example, having numerous banks, to an application by persons of no especial prominence or fitness, the Controller doubtless would be slow in granting a favorable answer. Applications for organizing banks have been denied, but his reasons have always justified his action.

If the application for organizing the bank receives the Controller's approval, the next thing to do is to complete the subscriptions for the stock, if this has not been done before making the application. Having done this, the subscribers should unite in Articles of Association. The following is the form of them furnished by the Controller to those who wish to organize a national bank:

FORM OF ARTICLES OF ASSOCIATION.

For the purpose of organizing an association to carry on the business of banking, under the laws of the United States, the undersigned, subscribers for the stock of the association hereinafter named, do enter into the following articles of association:

First. The name and title of this association shall be "The—— ——."

Second. The place where its banking house and office shall be located, and its operations of discount and deposit carried on, and its general business conducted shall be, &c.

Third. The board of directors shall consist of —— shareholders. The first meeting of the shareholders for the election of directors shall be held at ———, on the ——, or at such other place and time as a majority of the undersigned shareholders may direct.

Fourth. The regular annual meetings of the shareholders for the election of directors shall be held at the banking house of this association

on the second Tuesday of January of each year; but if no election shall be held on that day it may be held on any other day, according to the provisions of section 5149 of the Revised Statutes; and all elections shall be held according to such regulations as may be prescribed by the board of directors, not inconsistent with the aforesaid provisions of the said section 5149 of the Revised Statutes.

Fifth. The capital stock of this association shall be —— thousand dollars, to be divided into shares of one hundred dollars each; but the capital may be increased, according to the provisions of section 5142 of the Revised Statutes, to any sum not exceeding ——— thousand dollars; and in case of the increase of the capital of the association, each shareholder shall have the privilege of subscribing for such number of shares of the proposed increase of the capital stock as he may be entitled to according to the number of shares owned by him before the stock is increased.

Sixth. The board of directors, a majority of whom shall be a quorum to do business, shall elect one of their number to be president of this association, who shall hold his office (unless he shall be disqualified, or be sooner removed by a two-thirds vote of all the members of the board) for the term for which he was elected a director; and they shall have power to elect a vice-president, who shall also be a member of the board of directors, and who shall be authorized, in the absence or inability of the president from any cause, to perform all acts and duties pertaining to the office of president except such as the president only is authorized by law to perform, and to elect or appoint a cashier, and such other officers and clerks as may be required to transact the business of the association; to fix the salaries to be paid to them, and continue them in office, or to dismiss them, as, in the opinion of a majority of the board, the interests of the association may demand.

They shall also have power to define the duties of the officers and clerks of the association, to require bonds from them, and to fix the penalty thereof; to regulate the manner in which elections of directors shall be held, and to appoint judges of the elections; to provide for an increase of the capital of the association, and to regulate the manner in which such increase shall be made, and, generally, to do and perform all the acts that it may be legal for a board of directors to do under the Revised Statutes aforesaid; and they shall also have the power to make all by-laws that it may be proper and convenient for them to make, not inconsistent with law, for the general regulation of the business of the association, and the management and administration of its affairs.

Seventh. This association shall continue for the period of twenty years from the date of the execution of its organization certificate, unless sooner placed in voluntary liquidation by the act of its shareholders owning at least two-thirds of its stock, or otherwise dissolved at any time, by shareholders owning a majority of the stock of the

association, in any manner not inconsistent with law; and the board of directors, or any three shareholders, may call a meeting of the shareholders for this or any other purpose, not inconsistent with law, by publishing notice thereof for thirty days in a newspaper published in the town, city, or county where the bank is located, or by notifying the shareholders in writing.

Eighth. These articles of association may be changed or amended by authority of law.

In witness whereof, we have hereunto set our hands, this —— day of ————, eighteen hundred and ninety- ———.

I certify that the articles of association of the _____ were executed in duplicate, and that one of the instruments so executed is the foregoing; and that the other, in all respects like the foregoing, is on file with said bank.

_____
Cashier or President.

——— —, 189—.

It will be noticed that the third article above given provides for calling the first meeting to elect directors, etc. Not infrequently the stockholders have already selected the directors. This question is often asked by persons before subscribing for their stock, and they do so expecting that the persons named will be duly chosen. When this happens, that the stockholders have agreed in advance on the directory of their bank, the third article should read thus:

The board of directors shall consist of ——— stockholders, and the following persons [here insert their names] are hereby appointed directors of this association, to hold their offices as such until the regular annual election takes place pursuant to the fourth article of these articles of association, and until their successors are chosen and qualified.

The persons who are desirous of organizing the bank must be legally capable of holding and controlling property in their own individual right. Corporations, firms, associations of any kind, and even married women, ought not to be stockholders in the beginning. They may become members afterward, and indeed often are; but at the outset it is desirable that only those persons should be stockholders who can act on their own sole responsibility, and not as trustees or representatives. If, for example, a married woman was really desirous of becoming a stockholder this might easily enough be done by an agreement between herself and some other person who was a subscriber to transfer to her after the organization of the bank was completed, a portion or all of the stock for which she had subscribed. Each person taking part in the organization must sign his name to the articles. They are also signed in duplicate; one copy is filed in the office of the Controller of the Currency, another is kept in the bank.

Having executed the articles of association, the stockholders should next execute a paper called an organization certificate, which should be substantially as follows:

FORM OF ORGANIZATION CERTIFICATE.

We, the undersigned, whose names are specified in article fourth of this certificate, having associated ourselves for the purpose of organizing an association for carrying on the business of banking, under the laws of the United States, do make and execute the following organization certificate:

First. The name of the association shall be the _____

Second. The said association shall be located in the ——— of ———, county of ——— and State of ———, where its operations of discount and deposits are to be carried on.

Third. The capital stock of this association shall be ——— dollars ($———), and the same shall be divided into ——— shares of one hundred dollars each.

Fourth. The name and residence of each of the shareholders of this association, with the number of shares held by each, are as follows:

Name	Residence	No. of Shares

Fifth. This certificate is made in order that we may avail ourselves of the advantages of the aforesaid laws of the United States.

In witness whereof we have hereunto set our hands this —— day of ———, 189—.

_____

_____

State of ———,

County of ———, ss:

On this, the —— day of ———, A. D. 189—, before me, a ——— of ———, personally came _____ to me well known, who severally acknowledged that they executed the foregoing certificate for the purposes therein mentioned.

Witness my hand and seal of office the day and year aforesaid.

_____

[Seal of notary or of court.]

The manual signature of each person taking part in the organization must be appended to the organization certificate. A list of the shareholders, but not their signatures, should also be given in the fourth section. It must also be acknowledged before a judge of a court of record or a notary public, and the names of all the shareholders signing the articles of association must appear in the acknowledgment.

This paper must also be executed in duplicate like the other.

After executing the organization certificate, if the directors are not designated in the articles of association the shareholders should proceed to elect them. This may be done at any time before the association is authorized by the Controller to begin business, and afterward at meetings held on a day in January of each year specified in the articles of association. They are required to take the following oath:

FORM OF DIRECTOR'S OATH.

State of ———,
County of ———, ss:

I, the undersigned, director of the _____ of ———, of the State of ———, do solemnly swear that I am a citizen of the United States, and resident of the State of ———, and that I will, so far as the duty devolves on me, diligently and honestly administer the affairs of said bank; and that I will not knowingly violate, or willingly permit to be violated, any of the provisions of the Revised Statutes of the United States under which this bank has been organized; and that I am the bona fide owner, in my own right, of the number of shares of stock subscribed by me or standing in my name on the books of the said bank, and required by said Revised Statutes; and that the same is not hypothecated, or in any way pledged as security for any loan or debt.

_____

Subscribed and sworn to this —— day of ———, 189—, before the undersigned, a _____ of said county.

FORM OF JOINT OATH.

State of ———,
County of ———, ss:

We, the undersigned directors of the _____ of ———, of the State of ———, do each of us solemnly swear that we are citizens of the United States, and residents of the State of ———, and that we will severally, so far as the duty devolves upon us, diligently and honestly administer the affairs of said bank; and that we will not knowingly violate, or willingly permit to be violated, any of the provisions of the Revised Statutes of the United States under which this bank has been organized; and that each of us is the bona fide owner,

in his own right, of the number of shares of stock subscribed by him, or standing in his name on the books of the said bank, and required by said Revised Statutes; and that the same is not hypothecated, or in any way pledged as security for any loan or debt.

Subscribed and sworn to this —— day of ———, 189—, before the undersigned, a _____ of said county.

Every director, when elected, must at once take the oath in one or the other of the above forms, and transmit the same immediately to the Controller of the Currency.

To be eligible as a director a shareholder must be a citizen of the United States, and own at least $1,000.00 of the capital stock of the bank. And he must be the real owner of it free from any pledge or lien. Again, he ceases to become a director whenever his stock is lessened below that amount.

Three-fourths of the directors must have resided in the state or territory in which the association is located for a year or more preceding their election; and they must also continue to reside there while they remain in office.

As soon as the directors have been chosen, they should proceed to elect a president and vice-president, a cashier and such other officers as may be required, and to call in at least fifty per cent. of the capital stock.

As soon as these duties have been performed and the stockholders have paid their money, another certificate should be made and sworn to by a majority of the directors and by the president or cashier and sent to the Controller. The following is the form of this certificate:

CERTIFICATE OF OFFICERS AND DIRECTORS.

The undersigned, _____ president, _____ cashier, and _____ directors of the _____ organized under the sections of the Revised Statutes of the United States, approved June 22, 1874, which authorize the organization of national banking associations, and of subsequent acts in addition to and amendatory thereof, do hereby certify that ——— dollars have been paid into said bank, on account of its capital stock, as permanent capital; that the residence of each director, and the amount of stock of which each director is the bona fide owner, are as follows:

Name of Director	Place of Residence	Shares of Stock

And that this bank has in good faith complied with all the provisions of said act required to be complied with before receiving authority to commence the business of banking.

_____

President.

_____

_____ _____

Directors. Cashier.

State of ———,

County of ———, ss:

On this —— day of ———, 189—, before the undersigned, a ———— ————, personally appeared _____ president, _____ cashier, and _____ directors of the _____ and made oath that the foregoing certificate and the matters and things therein set forth are true to the best of their knowledge and belief.

_____

_____

_____

Subscribed and sworn to before me, this —— day of ———, 189—.

_____

The oath of a majority of the directors of an association is sufficient for this purpose.

One thing more. A portion of the capital must be invested in United States bonds and deposited with the Treasurer of the United States.* When this is done, the Controller, after assuring himself that all the requirements of the law above mentioned have been executed, will give to the association a certificate stating that the law has been fulfilled and that it "is authorized to commence business." This must be published in the city or county where the bank is located for sixty days or more after it has been issued.

Such is the mode of organizing a national bank. The requirements of the states differ in some particulars, but in many others are quite the same. An application must be made to the superintendent of banking, or to some other officer, for authority to organize, and after complying with the law prescribing how this can be done, a certificate of authorization is given to the bank to begin business. The organizing of state banks is somewhat easier, because they are not required to deposit bonds with any state official as a basis of circulating notes. Furthermore, should any doubt arise concerning the mode of procedure, a letter of inquiry, addressed to the proper state officer, will usually bring all the information desired.

After the Controller has given his authority for the bank to do business another meeting is held for a very important purpose—to adopt a code of by-laws for the government of the bank. In preparing

*See next chapter.

them the president or cashier or perhaps several of the directors usually compare the by-laws governing other banking institutions, and after such a comparison frame a series adapted to their own purpose. As a set may be of some value to those who may have occasion to consult our work, the following are given:*

BY LAWS.

SECTION 1. ANNUAL MEETINGS.

1. The regular annual meetings of the stockholders of this bank for the election of Directors and for the transaction of other legitimate business, shall be held at its banking rooms between the hours of two and six o'clock p. m., on the day specified in the articles of association, and notice of the same shall be given thirty days in advance, by publication, such notice to be signed by the President or Cashier of the bank.

The directors, previous to the election, shall appoint three (3) stockholders to be judges of election for directors, who shall hold and conduct the same, and who shall, under their hands, notify the person acting as cashier of this bank of the result thereof as soon as ascertained, and of the names of the directors elect.

2. The cashier shall thereupon cause the returns made by the judges of election to be recorded upon the minute book of the bank, and notify the directors chosen of their election by mailing same to their last known residence.

The cashier shall furnish for the use of the judges of election an alphabetical list of the stockholders of the bank, and each share shall be entitled to one vote, but no stock shall be entitled to a vote at the annual or any special meeting of the stockholders, unless the person offering to vote thereon shall have owned the same and it shall have been transferred upon the books of the bank at least ten days previous to said meeting. Said stock shall be voted in person, or by any one duly appointed by written or printed proxies, but such proxies shall not be voted by the president or cashier of the bank.

SECTION 2. SPECIAL MEETINGS.

A majority of the Directors may at any time call a special meeting of the stockholders, or such special meeting may be called upon the written request of stockholders owning or representing one-third of the capital stock, and in either of such cases the Cashier shall give notice thirty days in advance by mailing such notice to each stockholder at postoffice address shown on stock ledger, and in such notice shall state the object of the meeting. At such meeting or meetings no business shall be transacted except that stated in the notice.

SECTION 3. OFFICERS.

The Directors, immediately after the annual meeting of the stockholders, shall elect a President from their own number, who shall have

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*A set of by-laws for national banks is contained in the instructions relating to their organization furnished by the Controller of the Currency.

such compensation as the Board shall from time to time allow. The Board may also elect from their own number two Vice-Presidents, who shall have the power and discharge the duties of the President when absent. The President and Vice-Presidents shall hold their respective offices for the year succeeding their election, or until their successors are elected and qualified, unless either of their offices shall become vacant by resignation, disqualification or removal. Any such vacancy shall be filled by the Directors, and any vacancy in the Board shall be filled by the remaining Directors from among the stockholders.

The Cashier shall be appointed by the Directors, to hold his position during the pleasure of the Board, and shall receive such compensation as they may from time to time allow.

The Tellers and Clerks shall be appointed by the Executive Committee with the recommendation of the President and Cashier, to hold their respective positions during the pleasure of the Board, with such compensation as they may from time to time allow.

SECTION 4. EXECUTIVE COMMITTEE.

The Directors shall also choose from their own number an Executive Committee of five (5) and the President shall, ex-officio, constitute one of said Committee, and three shall constitute a quorum. In the absence of the President, the Committee shall elect one of their own number to preside at any of their meetings.

The Executive Committee shall possess the powers and perform the duties of the Board of Directors in vacation except in such matters as require the action of the full Board.

They shall report their proceedings at every meeting of the Board and shall keep a book wherein all their proceedings shall be entered and kept.

SECTION 5. CASHIER.

The Cashier shall take charge of and faithfully apply and account for all the moneys, funds and valuables of the bank, and shall give a bond with securities to be approved by the Board or its Executive Committee, in such sum as the Directors may require, conditioned upon the faithful and honest discharge of his duties.

He shall be clerk of all meetings of the stockholders, Directors and Executive Committee, and keep regular records of their respective proceedings.

SECTION 6. BONDS.

The bonds of the officers, after having been transcribed upon the minutes of the bank, shall be placed in the custody of a stockholder to be designated by the Board, who shall not be one of the bonded officers, to be changed, modified or surrendered only upon the authority of a resolution passed at a regular meeting of the Board.

The Executive Committee shall direct what officers and clerks shall give bonds, the kind of bonds and the amount in each case.

SECTION 7. DIRECTORS' MEETINGS.

The stated meetings of the Board of Directors shall be on the last Thursdays of June and December of each year.

The Executive Committee shall meet on every Monday at 4 p. m.

Special meetings of the Board or Committee may be called by the President or Cashier.

SECTION 8. REAL ESTATE.

All conveyances and transfers of real estate shall be made by and in the name of the bank, under the seal thereof, and shall be signed by the President and Cashier. Mortgages may be satisfied or assigned by the President, Vice-President or Cashier.

SECTION 9. TRANSFER OF STOCK.

The stock of this bank shall be assignable only on the books of the bank by the owner in person or by his attorney thereunto duly appointed, subject to the restrictions and provisions of the act under which the bank is organized; and a transfer book shall be kept in which all assignments and transfers of stock shall be made.

No transfer of stock shall be made without the consent of the Board or its Executive Committee by any stockholder who shall be liable as principal debtor or otherwise; and the bank shall have a lien upon all stock owned by any person as security for any indebtedness due the bank. Certificates of stock signed by the President and Cashier shall be issued to stockholders, and the certificate shall bear upon its face the provisions of this by-law.

SECTION 10. LOANS.

The regular time for discounting or purchasing notes or bills and making loans shall be at the meeting of the Executive Committee. In cases of no quorum, and between these stated meetings, the President and Cashier, and in the absence of the President the Cashier and one Director, shall have power to discount and purchase notes and bills and make ordinary loans.

The Cashier is authorized to make loans not in excess of $2,000.00 to patrons of the bank and extend previously approved lines of accommodation to regular customers.

SECTION 11. LOANS TO OFFICERS.

No officer or employe of the bank shall be allowed to use the funds of the bank on his own account, either by loan or otherwise, without the consent of the Board or its Executive Committee.

SECTION 12. LOANS LIMITED.

No loan shall be made to an individual, firm, or corporation, in excess of one-tenth of the capital stock actually paid in. Commercial paper bought on endorsement shall not be construed to form a part of the line of accommodations as above provided.

SECTION 13. EXAMINATIONS.

At each regular meeting of the Board of Directors they shall appoint two of their members to examine into the affairs of the bank, count its cash and compare its assets and liabilities with the general ledger, ascertain whether those accounts and all others are correct, whether the bank is in a sound and solvent condition, which Committee shall make such examination at such time or times as they shall see fit, without notice, and make a full report of the results of such examination or examinations to the Board of Directors at the next regular or

special meeting of the Board, and the result of such examination shall be certified and recorded in the minutes of the bank.

SECTION 14. EXPENSES.

The current expenses of the bank shall be paid by the Cashier, who shall, every six months, or oftener if required, make to the Executive Committee a detailed statement thereof.

SECTION 15. DIVIDENDS.

The earnings of this bank shall be disposed of according to orders of the Board of Directors, made at a special or regular meeting, and no dividends shall be paid to stockholders or other disposition made of earnings except upon an order of the Board.

SECTION 16. SPECIAL DEPOSITS.

Special deposits with the bank of valuable articles for safe keeping may be received by the Cashier at his discretion, and a receipt shall be given therefor stating that such deposit is at the sole risk of the owner.

SECTION 17. AMENDMENTS.

These By-laws may be altered or amended at any stated meeting of the Directors by a vote of a majority of the whole Board, provided notice of proposed alteration or amendment has been given thirty days previous to said meeting by mailing notice to each Director at his last known postoffice address as shown by the stock ledger.

The selection of a title is not always easy, and the controller usually gives the parties interested sixty days for doing this, which, for a good reason, may be extended. The name of the place where the Bank is to be located should form a part of the title. But if the name of the place is to be the prominent word in the title and appear first, it should not be repeated. If it is not to be the chief word, it should appear last. In no case need the name of the state be added.

The amount of capital required to organize a National Bank was changed by the law of 1900. In cities which have a population of 50,000 or more, the capital must not be less than $200,000. In places the population of which exceeds 6,000 and does not exceed 50,000, the capital must be $50,000 or more. In places having a population between 3,000 and 6,000, the capital may be as small as $25,000.

CHAPTER IV.

SHAREHOLDERS AND THE TRANSFER OF STOCK.

As we have seen by the national banking act, fifty per cent. of the capital of a bank must be paid before the Controller will give authority for the opening of its doors; and the remainder in ten per cent. monthly installments.* Thus the entire stock of a bank must be paid within six months after it has begun business. Furthermore, the installments must be paid in and certified to the Controller, one on each successive thirty days from the date of the Controller's certificate of authority to begin business. The following is the usual form of certificate:

CERTIFICATE OF PAYMENT OF CAPITAL STOCK.

——— Bank, _____ 189—.

Sir: It is hereby certified that the —— installment, amounting to ——— dollars ($———), has been paid in on account of the capital stock of the _____ making the total amount paid in on the capital stock of this bank $———.

[Seal of Bank.] _____

Cashier.

To the Controller of the Currency,
Washington, D. C.

State of ———.
County of ———, ss:

Subscribed and sworn to, before the undersigned ——— of the said county this ——— day of ———, 189—.

_____

N. B.—Banks are requested not to report the payment of any one installment twice, except as included in total amount paid in.

Very generally stockholders contribute the entire amount of their capital at the beginning. In some cases even a surplus is then formed by the payment of an additional sum. The object of creating a surplus is

*On July 5, 1897, there were 6,337,114 national bank shares. Of these, 5,464,037 were held by residents of the State where the banks were located, 873,077 by non-residents, of which 21,729 were held by residents of foreign countries. The number owned by women was 1,418,542.

to enhance a bank's credit and stability. Indeed, it is a sign of weakness to pay at first only a part of the capital; but in the smaller places, where capital is not so abundant, it may not be easy for stockholders to pay the entire amount at the beginning, and so the law has provided for this emergency. In the larger cities, however, a bank would be regarded as a lame affair that paid only a half of its capital when beginning business.

Indeed, in the larger cities the organizing of a new bank and conducting it successfully, is a very difficult, and therefore risky venture unless favored by unusual circumstances. The older banks that have acquired experience and accumulated a large surplus, possess great advantages over a newly formed organization. Why should customers leave an old bank possessing ample means, able and willing to accommodate them, for a new and untried institution? This question at once reveals the hard problem that a new bank in one of the larger cities well supplied with banking facilities, perhaps over-supplied with them, must face. It is true that they may be successful if organized in parts of a growing city where they can draw customers by reason of their greater convenience. Distance often counts for much, and a good bank next door is likely to be patronized in preference to one a quarter or half a mile away. Again, a new bank may be started in a large city having stockholders and directors who are so interested in business that they can bring a large amount of business and influence the course of other people. Now and then a bank is organized of this character with such powerful support as to insure its immediate success. But unless a bank in a large city has some advantage by reason of its location, or influential organization, the probabilities are that depositors will be attracted very slowly and it may prove a failure. There have been enough failures of this nature in our large cities of late years to serve as a loud warning to future projectors. In this regard the establishing of a bank is wholly unlike the establishing of a factory or store for the production and sale of goods. A bank is a peculiar creation in which faith, credit, experience and ability count for so much. A person may go into a store to buy goods and neither know nor care who may be the owners or salesmen. He wishes a particular thing, and if he can get it there at a price as low or lower than it can be purchased elsewhere, that is quite enough. But the conditions on which people confide their deposits to banks and do business with them are very different. They wish to be assured above all things of the honesty and ability of those with whom they form such confidential relations; and consequently when the character of a bank is well and favorably known, its customers are unwilling to leave and join a new enterprise unless some clear advantages are to be gained by the change. These facts explain why new banks in the larger places, except those established under unusual conditions, have had such a slow growth, and why so many of them have been obliged to suspend business.

Stockholders of national banks must pay for their subscriptions in money. They cannot give notes. They can indeed give a check on another bank, for this is deemed equivalent to money. In the olden times the regulations for paying in the capital of a bank were very imperfect. In many states none whatever existed. In a previous chapter we have shown that banks were often organized and set afloat without any capital. The process simply consisted in discounting the notes of the stockholders for the amount subscribed, the bank paying them in its own circulation which, in turn, was returned by the stockholders to the bank in payment of their stock. It was in the light of this experience that the national banking law requires stockholders to pay in money, and forbids the discounting of notes by a bank on the pledge of its own stock as security.

With respect to the liabilities of national bank stockholders the national act limits the amount to a sum not exceeding their stock. If a stockholder has subscribed for ten shares, worth at par $1,000.00, he may, in the event of the bank's failure, be held liable for $1,000.00 more, if as much is required to pay the bank's indebtedness; but that is the maximum amount of his liability.

When stockholders have paid for their stock, they receive certificates for it. These are titles to the bank's property; in other words, to the money they have paid. If stock is paid in installments, they receive receipts for the amount paid, but do not get certificates until after paying the full amount. The national bank act requires the shares to be in amounts of $100.00, in harmony with the general practice of joint stock companies throughout the country. Many of the state banks, however, were organized with shares having a par value of $50.00. In such cases they have been permitted to organize as national bank associations and issue shares for similar amounts. This is the reason why some of the national banks have shares for smaller amounts than other banks.

Care should be used in preparing bank certificates. A form in common use is here given. Most of them are now engraved, although the law does not require this to be done. The counterfeiting of an engraved certificate is more difficult, and for that reason they are better. The New York Stock Exchange requires that all stocks listed there for sale must be engraved. It is the general practice among banks nowadays to have their certificates engraved instead of printed. As there is keen opposition in the business, a bank can have a plate made and its certificates printed at a reasonable price.

In issuing certificates, they must be signed by the president and cashier. Cases have occurred in which the cashier has signed them in blank for future use, and they have subsequently gone into circulation. If he should sign a certificate in that manner, it would be a warranty of its genuineness, and his bank would be liable for the loss to subsequent holders who should receive it and loan money thereon. A bank

Certificate

No. _____

For _____ Shares

Issued to

_____

_____

_____

Date _____ 189_

Received by _____

_____

_____

INCORPORATED UNDER THE LAWS OF THE STATE OF
CAPITAL STOCK
$75.000
CITIZENS STATE BANK
OF HARTFORD CITY, IND.
NUMBER
75
SHARES
10
SHARES $100 EACH.
This is to Certify that Alexander Hamilton is the owner of
Ten Shares of the Capital Stock of
THE CITIZENS STATE BANK OF HARTFORD CITY, IND.
transferable only on the Books of said Bank in person
or by Attorney on the surrender of this Certificate
In Witness Whereof the said Bank has caused this Certificate to
be signed by its President and Cashier, and its seal affixed.
this 15th day of August 1899
James T. Cox Cashier
W. O. Fletcher President

is liable in such a case like the indorser of negotiable paper who warrants the genuineness of the instrument and all the signatures before his own.*

Great care should be exercised in filling out a certificate. The name should be carefully written and every precaution taken to guard against mistakes.

After their issue, transfers are constantly taking place. Subscribers die or sell their stock, or pledge it, and so bank officers are constantly required to make transfers for their customers. The cashier is the proper officer to attend to the business of transferring the stock of his bank. In doing this he acts for the bank, and not for the shareholder who requests the transfer to be made. Consequently his bank is liable to any one for money received for stock sold to him. A case of this kind occurred a few years ago in which the cashier was sued, and the judge remarked that he must be regarded as the agent of the board of directors of the corporation, and therefore the suit must be brought against the bank. In other words, the cashier acts as the representative of the bank, and not personally in making the transfer, and consequently whether he has violated the law or not is a matter to be determined in an action between the shareholder and the bank.

A stock book is kept wherein is recorded all transfers of stock. Herewith is given a specimen page. The transfer officer enters on the

REGISTER AND RECORD OF CERTIFICATES OF STOCK.

OWNER OF CERTIFICATE	RECORD OF ISSUE					Amount of Stock $100 per Share	TRANSFERRED					TO WHOM TRANSFERRED
	Date M.	Date D.	Date Y.	No. Certif.	No. Shares		Date M.	Date D.	Date Y.	No. Certif.	No. Shares	

left side every cancelled certificate; on the other side he records a description of every new certificate issued. It does not follow that the two sides of this book should balance. Not infrequently the record of the certificates issued will show a smaller number of shares issued than the other side of certificates cancelled. The reason is that persons to whom shares have been transferred are not always ready to take out new certificates of their ownership. They may wait with the expecta-

*See Bolles on Bank Officers, section 512.

tion of buying more stock and taking out one certificate for the entire amount.

In transferring a certificate, there is a printed form on the back which must be signed by the owner, and delivered to the purchaser. When this has been done, the purchaser presents it to the bank and desires a new certificate. The first act of the transfer officer, usually the cashier, is to cancel the certificate thus presented. This is usually done by cutting out portions of the name of the cashier or president, and also of making an entry across the face something like this: "Stock transferred and certificate cancelled," giving the date of the transfer and also the number of the new certificate issued to the presentor. The surrendered certificate should be pasted into the stock book opposite the stub to which it properly belongs. If, for example, the certificate in the order of issue was number sixty-one, it should be pasted on the stub thus numbered. The new certificate is filled out and signed in the same manner as the first.

Certificates are often made out to trustees, and when this is done care should be taken to describe the nature of the trust. If, for example, a certificate is made to a trustee acting under a will, the certificate should read, after giving the name of the trustee, "Trustee under the will of _____ is proprietor of ——— shares of this bank." An executor's certificate should contain, not simply his name as executor, but his name as executor of the estate of _____

Banks ought to act slowly in making certificates to persons simply as trustees. In former times certificates were thus made to persons, without any description of the nature of their trust. The accounts of many savings banks depositors have been often kept in this manner. In truth, in many of these cases there was no trust; it was merely a device to enable persons to deposit more money than the law permitted in their own names, or to secure it against attachment, or for some other purpose not strictly proper. But if a person is really acting as a trustee the certificate should clearly specify the trust relation. And for several reasons: First, suppose the person who has described himself as trustee should die. What shall the bank do concerning the subsequent transfer of this stock? Suppose John Smith was a trustee, thus described, and his executor appears and says that he is authorized to administer on John Smith's estate? Does that empower the bank to do whatever he may wish concerning the transfer of the stock standing in the name of John Smith, trustee? Does it belong to John Smith's estate, and is it rightfully under the control of his administrator, or executor? If John Smith was trustee of some estate, should not some other trustee be appointed in his place, and the bank refuse to make any transfer until he is qualified and gives proper evidence of his authority to control the stock? This inquiry is sufficient to show the need of finding out at the time of making out a trust certificate the nature of the trust, instead of delaying until the death of

the real or pretended trustee. For surely a time will come when the bank, in order to be safe, must carefully ascertain the nature of the original trust and what steps are needful to make a proper transfer.

Sometimes certificates are transferred by the agents of the owners. Whenever this is done the bank must be careful to ascertain the agent's authority. He should show a power of attorney, or other authority, to justify the bank in making the transfer on its books. The instrument need not be witnessed, although it often is, and the practice is a good one.

POWER OF ATTORNEY.

Know all Men by these Presents:

That..... ..... ha....made, constituted and appointed, and by these presents do make, constitute and appoint..... .....true and lawful Attorney.....for.....and in..... name, place and stead.

1. To endorse my name on drafts and checks for deposit
2. To endorse my name and draw money on drafts and checks payable to my order.
3. To sign checks in my name on my account in the INDIANA NATIONAL BANK OF INDIANAPOLIS.

.....

giving and granting unto.....said Attorney, full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as.....might or could do if personally present, with full power of substitution and revocation, hereby ratifying and confirming all that .....said Attorney.....or.....substitute shall lawfully do or cause to be done by virtue thereof.

IN WITNESS WHEREOF, ...have hereunto set ..... hand.. and seal....., this.....day of.....in the year one thousand eight hundred and.....

My signature:

.....

Witness:

.....

Not long since a person presented himself to the cashier of a bank holding in his hand a certificate of shares which he had stolen. This was accompanied by a power of attorney filled up in the most approved manner, containing the forged name of the owner of the certificate, and the signatures of two witnesses. The cashier without suspecting for a moment that it was forgery, immediately transferred the stock as requested to the presentor and gave him a new certificate. The bank, of course, was the loser by this transaction, but it got some satisfaction in catching the knave and putting him in prison.

Quite frequently executors, administrators and other trustees request the transfer of stock. What is the proper course for a bank to pursue in such cases? Whenever a trustee appears with a request of this character, the cashier should ascertain by what authority he acts. If he is acting under a will, a deed, or other instrument, the cashier

should require him to present the instrument, or at least a copy of that portion setting forth the trustee's authority, with proper proof or authentication of its validity.

An administrator is appointed by a court to administer on the affairs of deceased persons, and a certificate granted by such court is sufficient evidence of his authority to transfer stock and to request the change to be made on the books of the bank. As an administrator is qualified to sell the estate committed to his charge, a bank is always safe enough in acting after the presentation of such a certificate. In some cases a bank also insists on keeping it as a part of the record. As a certificate is inexpensive this is not a burdensome requirement.

The authority of an executor is a little different because his power is limited by the directions in the will. In some cases he is required to produce a copy of the will itself, or at least of that part relating to his authority to sell the stock of the bank. At all events, a cashier should satisfy himself of the executor's authority to act in making a transfer before completing it.

The same remark applies to guardians and other representatives. They should furnish such proof of their authority to act as will satisfy the law and custom in the city or place where a bank is located.

In transferring stock to non-resident executors and administrators, different rules prevail among the banks in the several states. Some banks require executors or administrators to qualify in the state where their bank is located. This is a somewhat expensive proceeding, and is deemed a hardship. In other cases banks are willing to accept the certificates granted by the proper courts acting outside their own states. The by-laws of many banks provide how transfers must be made by non-resident owners of stock, or their representatives.

Another mode of making transfers is to give a bond of indemnity to satisfy the bank in the event of any loss arising from an administrator or executor's lack of power. This is not an uncommon mode of obviating a bank's objection to receiving the letters of foreign executors and administrators.

In Massachusetts, by statute, a foreign executor or administrator may transfer or sell the shares of any bank located in that state without taking out letters of administration. He may obtain a license for doing this issued under restrictions. One is that it shall not be granted to any foreign executor or administrator until after the expiration of six months from the date of the death of the testator or intestate. The fact must also appear that there is no executor, administrator or guardian appointed in Massachusetts who is authorized to sell, transfer, or receive such shares. This is an inexpensive process and a great improvement over the old one of taking out letters of administration and giving bond as required in the regular settlement of an estate.

Notwithstanding all the care practiced by banks in transferring stock, accidents happen in which they are losers. Not many years ago

a savings bank in New York held stock in a national bank located in New York city. Its broker in New York presented himself to the bank with the certificates of stock and a power of attorney signed by the treasurer of the savings bank, duly witnessed. Accompanying the power of attorney and the certificate was a copy of a vote to the effect that the board of investment had authorized the treasurer to sell and transfer the stock. The papers were in the handwriting of the treasurer of the savings bank without any other names or seals. The New York bank declined to make the transfer, saying that the whole transaction evidently indicated that one man had done the entire thing. In other words, the bank officer doubted whether authority for the sale of the stock had been conferred in the manner indicated by the papers. To repeat once more, a bank cannot be too careful in looking into the authority of every agent who presents a certificate for transfer. Rightly, a bank is held responsible for any errors it may make in transferring stock without adequate authority on the part of those who assume to be the owners or agents.

In delivering a certificate, it hardly need be mentioned that a bank officer should assure himself that the person claiming it is the rightful owner or representative. Personal identification is not unreasonable. Banks, we believe, usually require it, and no person who is entitled to a certificate should object to complying with this reasonable demand. When, however, it is difficult to find any person who knows the presentor, banks sometimes permit him to identify himself by papers, letters, and other evidences that he may have in his possession. This, however, is of an inferior character, and a positive identification is much better. The use of signatures is somewhat risky, because experience has shown that it is somewhat easy for one to learn the art of making the signature of another.

Next to personal delivery the express is the best mode. The reason is because a receipt is given for the parcel, which should be preserved and attached to the stub, as this furnishes satisfactory evidence of a good delivery.

The mail is the last and most objectionable method of making a delivery. When a bank is requested to deliver a certificate in this manner, the risk is borne by the person making the request. This is the rule generally whenever money or anything else is sent through the mail. It becomes the agent of the person making the request; but there is danger of a loss, and a lost certificate may cause difficulty. If sent in that manner, it should be registered, and every precaution taken to insure its safe delivery. The government assumes no risks for anything transmitted through its agency, while an express company does assume them, and consequently some choose to pay the additional charge and gain the security afforded by this mode of transmission.

Many of the older banks have on their stock lists the names of estates that are holders or owners of stock which has never been

divided among its real owners. In many cases it is desirable for stock to be held in the name of guardians, executors and other trustees. On the other hand, there are other cases in which executors, administrators and trustees ought to transfer the stock held by them to the rightful owners and close up their business. The cases are numerous in which trustees prolong their trust to the injury of the persons who are the rightful owners of money, stocks or other property in their possession. It may be a delicate thing for a bank officer to insist on making a transfer of stock, yet he doubtless would well serve many parties if he insisted on this. Trustees as well as other persons are sometimes dilatory in executing their trusts, and prodding by a bank officer might come with very good grace, as he can easily show that it is always desirable for a bank to have its stock held by its real owners unless some good reasons exist for holding it otherwise. Trust relations are more complicated than any other, and while a bank for a good reason is always willing to enter into and maintain them, yet it seeks to bring them to an end as soon as the reason for their creation has ceased to exist. When an administrator or executor has had ample time to pay the indebtedness of his estate, and to divide its assets, he is negligent if not doing so; and a bank, therefore, is justified in insisting on having stock thus held transferred at the earliest reasonable time.

Sometimes certificates are lost, and then the question arises, What shall be done? When a certificate is supposed to be lost, the owner is sometimes impatient and perhaps a little nervous and thinks that the quickest remedy is to apply to a bank for another certificate. Whenever a person presents himself to a bank with such a story, the official in charge of the matter should assure himself that a most thorough search has been made before issuing another. More than one case has happened in which a person has been kindly requested to make a further search and the missing certificate has been found. After a most thorough search has been made without finding it, another may be issued in such a manner as to indicate that it is a duplicate, and issued in the place of one supposed to be lost; and a bond of indemnity should be taken to secure the bank against loss should the first one ever be presented. As this bond is quite similar in many respects to the bond required on other occasions an example may be given. It will be seen that by making slight changes this bond may be used for other purposes, for example, by a foreign executor or administrator.

Sometimes stockholders change their names and desire a new certificate. This happens especially when women are married. When this delightful event in her life occurs, it is desirable to have a new certificate made, as a bank at all times ought to know the names of its shareholders. In making a transfer of this kind the owner, suppose her name was Susan Jones and her married name is Smith, should fill out the transfer thus: "Susan Smith, formerly Susan Jones." It hardly

need be added that the bank should assure itself of dealing with the same person in making the transfer.

Until a transfer is made on the books, the real owner of the capital stock of a national bank is liable for its losses, as already described, not exceeding the par value of his stock. Again, any person may become liable who holds himself out as the owner of shares by allowing himself to appear as the registered owner on the books of the bank. And if the real owner of shares transfers them to another person, or has them placed on the books of a bank in the name of another person simply to evade his liabilities as a shareholder, nevertheless he remains liable like any other. Lastly, if a person receives shares of a bank as collateral security for a debt with a power of attorney authorizing him to transfer the same on the books, and, unwilling to incur the responsibility of a shareholder, he has them transferred to another by virtue of an agreement that they are to be held as security for the debt due from the real owner to the creditor, he is not liable as a shareholder. It may also be added that generally, when shares are pledged as collateral security, the pledgee is not regarded as the real owner and the pledgor remains still liable as a stockholder for the debts of the bank, as prescribed by the statute.

In every case some one is liable, and whenever a bank fails attempts are often made to evade liability. In many cases shareholders have transferred their ownership simply to evade liability, but courts look with no favor on such transfers. It may be difficult to prove that they were made to avoid liability, but whenever the proof appears, the parties are held accordingly. In one of the most recent cases the court remarked that only slight evidence was needful to show that the transfer was made simply to avoid liability. Whenever a bank fails soon after a transfer, or the pledgee is an irresponsible person, these facts alone furnish strong evidence that the transfer was not an actual sale of the stock, but made simply to avoid liability.

We have said that in all cases some one is liable and this rule is without exception. Consequently societies that are shareholders are liable like other shareholders of a bank. So are wards, but their trustees or guardians are not personally responsible. Nor do married women escape, but are liable like others for an amount equal to the par value of their stock should so much be required to discharge the debts of the bank.

The liability of stockholders in state banks differs from national bank stockholders, but the tendency of late years among the state legislatures has been to increase the liabilities of shareholders. The effect should be to lead them to exercise more vigilance in conducting their institutions. Concerning this more will be said in another chapter.

CHAPTER V.

ANNUAL MEETINGS. ELECTION OF OFFICERS.

During the first month of the year national banks are required to hold their annual shareholders' meeting. The state banks observe a similar requirement, though the time of holding it may not be the same. At these meetings the president presides and the cashier serves as a clerk. Every shareholder is entitled to one vote on a share, and shareholders may vote by proxies, though no officer of a national bank can thus act.* No shareholder, however, who is liable on his shares can vote on them.

The power of attorney given to a person to act as proxy is very simple, and as it is frequently used in bank matters a form may be given.

PROXY.

Know all Men by these Presents:

That I, ..., do hereby constitute and appoint .... my attorney and agent for me, and in my name, place and stead, to vote as my proxy at the election of Directors of THE INDIANA TRUST CO., OF INDIANAPOLIS, IND., on ..... according to the number of votes I should be entitled to vote if then personally present.

IN WITNESS WHEREOF, I have hereunto set my hand and seal, this .. . .day of..... . .., one thousand eight hundred and ninety.....

....(Seal.)

Sealed and delivered in presence of

....

The by-laws usually state the day in the month when the annual meeting is to be held, and describe the notice that must be given to the shareholders. This requirement should be carefully observed. Due notice should be given whether anybody is expected to attend or not. Indeed, it is well in all matters to follow the strict requirements of the law, and not to fall into neglect through the belief that shareholders

*The Controller holds that a director also cannot thus act.

will never know, or if knowing do not care, whether the law is observed or not.

In like manner, when persons act as proxies, attention should be paid to the power of attorney given by them and a proper record be made of their authority to act. Generally, the annual meetings of banks and corporations are very perfunctory affairs; this ought not to be. The Canadian banks set an example which the banks of the United States might wisely follow. The manager usually prepares an elaborate, printed statement describing the gains and losses of the bank during the year and the reasons for them, the condition of business generally, with such suggestions as may occur to him for increasing the business of the bank. When he has finished reading the statement, the president often adds some remarks. Then the shareholders are requested to discuss the report of the manager and to ask questions, to which the manager responds. If the banks in this country followed the Canadian practice, we venture to say there would be fewer bank failures. There should be greater publicity in the management of our joint stock undertakings, and especially with their shareholders. They are, in truth, deeply interested, but in most cases are blind owners, trusting everything to the persons chosen to manage their affairs. It often happens that directors and managers betray their shareholders, and when an explosion occurs then it is learned that perhaps for years the concern was negligently or unlawfully managed. During that period annual meetings had indeed been held, but no one was present, no reports were made, no questions asked, so nothing really was known. A friend of the writer a few years ago determined to attend the annual meeting of a company in New York, in which he was a large share holder. He made his appearance at the office of the president and made known his intention of participating in the meeting. The president told him that he was very glad to see him, wished that his example might be followed by other shareholders, invited him to a seat and then entered into a conversation concerning the weather and everything except the affairs of the bank. My friend, after waiting an hour, wondered when the annual meeting would begin, for he knew that at the time of calling he was only five minutes in advance of the time specified in the notice. Finally the president said to him, "Oh, you have come to attend the annual meeting, have you; well, that is going on in the other room; walk in." Acting as he was bidden, he discovered one person who was running the meeting. About an hour afterward he attended another annual meeting with an entire change of scene. Instead of vacancy, several hundred were present. The concern was in the hands of a receiver. Millions had been lost through mismanagement and the shareholders, when it was too late, were eager to find out everything they could concerning its past management. Had they attended former meetings and made more inquiries its course might

have been different. It is better to attend early and inquire concerning the future than to go late and inquire into what has been done.

It is often said that to be successful a concern must be intrusted to the direction of one man or body of men. It is doubtless true that not every item of business can be heralded abroad, not every contract as soon as it is made, yet it is true that far more detailed information can be safely given to shareholders, and they should insist on having it. In short, the practice of holding real annual meetings should be more general, of making inquiries, of appointing committees of investigation, and of looking more sharply into every nook and corner. With many the feeling prevails that such inquiries are useless, hopeless, that nothing is likely to come of them, that they are in the minority and could effect nothing if they did attend. But this feeling should not prevent any one from doing his duty. It may be that, even if a person were alone in his objections or inquiries, he would set other shareholders to thinking who, at a subsequent meeting, might be ready to join him in further inquiries and in pushing investigations.

After the meeting has been duly organized, the directors are chosen. The by-laws prescribe how this must be done, by ballot or otherwise. When they have been chosen, then the cashier should send a notice to them of their election. Very often the directors are present at the annual meetings and the work of the shareholders simply consists in re-electing them and at a later hour of the same day they meet for the purpose of choosing a president. For, it may be remarked, the president is always a director and chosen by the directory. The first act of a director after accepting office, or after his re-election, is to take the oath prescribed by the law. This may be administered by a notary public, or by a justice of the peace, and when taken by national bank directors must be sent to the Controller at Washington. They need not be at the bank when taking their oath; this may be done elsewhere, but in no case can the oath be omitted.

CHAPTER VI.

THE CIRCULATON.

One of the principal sources of profit to state banks in the olden times was on their circulation. Generally, they were not required to keep any reserve; many of the banks kept no specie to redeem their notes; and banked on their credit, on which there was a clear profit after deducting the expenses of bank management. Indeed, with hundreds of banks this was their chief source of gain, as no actual capital was contributed.

The national bank system changed all this. At the outset, it was needful to invest the entire capital of a national bank in the bonds of the government. On the amount thus invested a bank could get ninety per cent. of the par value of its bonds in the form of circulating notes. After the war ceased and the government had no more bonds to sell, banks were permitted to invest portions of their capital in other ways; but the law is none the less strict in requiring an actual capital to be contributed to the shareholders before beginning business. Circulating notes, however, may be issued to the par value of the capital invested in national bonds.

They are now divided into two classes with respect to their investments in the securities of the federal government. Banks having a capital of $150,000.00 or more must still invest at least $50,000.00 in government bonds; while banks possessing a capital of less than this amount are required to invest only twenty-five per cent. Thus, a national bank having a capital of $50,000.00 is required to purchase only $12,500.00 worth of government bonds.

The bonds are deposited with the Treasurer of the United States and must be registered. The object of registering them is to make them more secure against loss by theft or otherwise.

A bank can purchase coupon bonds to meet the requirements of the law, and send them to the Controller of the Currency with the request to have them exchanged for registered bonds, and kept with the Treasurer of the United States in trust for the credit of the association depositing them. Every national bank has a box in the treasury office at Washington containing its securities, and the boxes are arranged in such a manner that they can be found without difficulty. Whenever the president or other officer of a national bank goes to Washington, it is a common practice for him to call on the Treasurer and request to be shown the box containing the securities of his bank.

It is worth adding that during all these years since establishing the national bank system, the securities of no national bank in the keeping of the Treasurer have ever been lost or displaced, though the amount aggregates many millions, and banks are constantly changing them. They sell them and buy others, and thus the officials at Washington have had frequent occasion to open these boxes during the last thirty-four years.

When registered bonds are sent for deposit, they should be assigned to the Treasurer of the United States to be held in trust for the sending association. In some cases registered bonds are issued directly to the Treasurer in trust. The mode of assigning them is described in a note printed on the back, so that no one need fail to assign them in the proper manner. When the registered bonds are received, they can be transferred on the books of the Registrar of the Treasury, and new bonds issued to the Treasurer in trust for the bank in accordance with the assignment. Every bank should be careful to write its corporate name correctly, and in every case the board of directors must authorize the transfer, which must accompany the request for transferring them. Such a transfer cannot be done simply by the request of the president of the bank or other officer, but only in the manner described.

The most convenient method of depositing registered bonds is to send them to the Controller properly assigned, as we have explained, requesting him to have them transferred to the Treasurer in trust and also requesting him to send a receipt stating that the bonds are thus held in trust for the association, on whose behalf the transfer is made, and as a security for the redemption and payment of any circulating notes that may be delivered to the association. An assignment or transfer of such a bond by the Treasurer is deemed invalid unless countersigned by the Controller of the Currency.

The Controller authorizes payment of interest on the bonds to the bank depositing them, and the Treasurer pays it by check to the order of the bank, payable at any United States assistant treasury, or United States depository.

Having complied with the law in depositing registered bonds, a national bank is then prepared to receive its circulation. It is not required to take this out, but having invested its capital, or a portion, in this manner, is usually desirous of utilizing its credit by getting as many notes as the law permits. Indeed, for many years the banks have been contending that authority should be granted to them to receive circulation to the par value of their bonds, but thus far have failed to secure this amendment to the law. As many of the banks have paid a considerable premium on their bonds, the profits on note-issuing have been so small that the banks have usually invested in this way only the smallest amount of their capital needful to comply with the law. Had the premium been lower, or the banks been author-

ized to issue notes to a larger amount, they would have invested a much larger portion of their capital in the obligations of the government. For several years, when the premium was very high, the banks believed there would be more profit in selling bonds they held in excess of the legal amount for the large premium they commanded, than in keeping them as a basis for issuing notes. In other words, more money was to be made by selling their bonds at a premium and investing the avails in other ways, than in keeping their capital thus invested notwithstanding the privilege of issuing notes. A few examples may be given showing the profits on issuing notes based on bonds purchased at par, or at a premium.

PROFIT ON CIRCULATION, BASED ON A DEPOSIT OF $100,000 BONDS, OCTOBER 31, 1896.

	Market Value	Maximum Circulation Obtainable	Interest on Circulation at Six per cent.	Interest on Bonds	Gross Receipts	Tax	Cost of Redemption
2's	$92.6712	$88,404.08	$5,004.24	$2,000.00	$7,004.24	$834.00	$45.00
*4's	107.6712	90,000.00	5,400.00	4,000.00	9,400.00	900.00	45.00
†4's	116.7327	90,000.00	5,400.00	4,000.00	9,400.00	900.00	45.00
§5's	110.1284	90,000.00	5,400.00	5,000.00	10,400.00	900.00	45.00

	Express Charges	Plates	Agents' Fees	Sinking Fund	Total	Net Receipts	Interest at Six per cent. on Cost of Bonds	Profit on Circulation Amount	Per Cent. of Profit
2's	$3.00	$7.50	$7.00	. . . .	$896.54	$6,107.70	$5,560.27	$547.45	.591
4's	3.00	7.50	7.00	$518.62	1,481.12	7,918.88	6,460.27	1,458.61	1.355
4's	3.00	7.50	7.00	229.57	1,192.07	8,207.93	7,005.16	1,202.77	1.030
5's	3.00	7.50	7.00	1,135.42	2,087.92	3,312.08	6,607 70	1,704.38	1 548

* Maturing July 1, 1907.
† Maturing February 1, 1925.
§ Maturing February 1, 1904.

It will be seen from these examples that the profits in most cases on issuing notes are very small, and are not a tempting source of business. As the profits in banking are declining, banks are turning with more longing to the old system of state banking, under which large profits were made in issuing notes. This, in truth, is the explanation in part of the constant agitation in favor of a radical change in the system of bank-note issuing.

The enemies of this system used to say that it was open to condemnation because double profits were acquired—one from the interest on the bonds deposited with the government, and the other from the profits on the notes. There is nothing in this criticism, for the system in this respect is not a whit different from the systems that formerly prevailed. If the shareholders of a bank actually contributed capital at the time of organizing it, or afterward, they received interest on its use as well as on the notes issued by the bank itself.

The notes issued by the bank are furnished by the government. The government buys the paper on which they are printed, makes the designs and prints them, and delivers them free of cost to the receiving bank except the express charges for sending the notes and the plate. When sent, they are complete lacking the signatures of the cashier and president. We have no space here to describe the peculiarities of the paper on which they are made, nor the process of making them, nor the checks adopted by the printing and engraving department to prevent the printing and issuing of any beyond those rightfully demanded. These matters have been explained on many occasions, and a reference to some of the sources of information will suffice. It may be added, however, that for a long while outside companies were strongly opposed to the undertaking by the government of the business of engraving and printing its securities and bank-notes, and endeavored to break up that department. It was contended that the government could not do the work as cheaply and well as outside companies, that there were more risks of loss attending the business, and for several years it seemed quite doubtful whether the government would weather the storm of opposition that was continually beating against it for attempting to do this work. It has, however, outlived all opposition, and while some irregularities have taken place, only a few losses have occurred, and these have been very slight—not enough to embarrass either the government or any bank.

The Bank of England makes its own paper and prints its notes; so does the Bank of France.* The printing by the English bank is done in an upper story of the bank building on Threadneedle street.

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*HOW FRENCH BANK NOTES ARE MADE.—All bills are issued by the Bank of France, which carries on the whole process of manufacture, including even that of the paper on which they are printed, and the ink used. The paper factory is at La Ferte-sous-Jouarre, where linen rags are so treated as to produce a paper of a peculiar

The designs on our bank notes are radically different from those on the Bank of England notes. These are printed on white paper, thin and crisp, and are few and simple. Our notes are made on a radically different principle. Elaborate designs and colored inks are used because it is believed the notes cannot be so easily counterfeited.* In 1820 "a great outcry was raised against the Bank of England for not

quality. This special paper is made, inspected, cut into sheets and shipped to Paris under the care of two of the bank officials, who are held responsible for every sheet.

The sheets are packed in bundles, of 1,000 in each, and are printed in the basement of the bank building in Paris. As with the blank paper, the bills, in every stage of fabrication, are in charge of some official, who must account for every one which has come into his hands, either by showing it, or a receipt given for it by the official to whom he has handed it over. As the bank has sometimes printed 400,000 bills a day, and at such periods employs about 400 persons in the printing department, strict accounts are necessary to prevent loss, and an elaborate system of numbering and checking is used.

A series of bills consists of 1,000, which are numbered fom 1 to 1,000, and twenty-five series, lettered A, B, C, etc., and tied up together, under the name of an "alphabet." After each operation, the bills are verified by women, who sign their names on the band placed around the bundles. As there are nine operations, there must be nine verifications, and the final verification is repeated, by a fresh set of inspectors, so that nothing can be overlooked. After the bills are complete they are delivered to the secetary of the bank, who examines them and gives a receipt for them, discharging the head of the printing department from further responsibility. They are then placed in the vaults and are withdrawn for issue only by order of the governors of the bank.

The principal difficulty in regulating the accounts comes from the defective bills. No bill is allowed to pass the inspectors which shows a spot, an uneven margin, a defect in printing, or any other imperfection, and the bills thrown out must be recorded in the books with quite as much accuracy as those which pass successfully to the final stage. Every bill rejected by the inspectors is stamped, and its place in the series filled by a check. The stamped bills go to the secretary of the bank, who puts them under lock and key, and new bills corresponding to the checks, are printed, and credit is given to the paper manufactory for the paper necessary to make these.

The accounts of the "faulted" bills are carried through the books, and for verification, the stamped bills themselves are kept for five years. At the end of that time, if there has been no question about them, the regents of the bank, the secretary, the examiners, the chiefs of the printing department and the chiefs of the department of bill accounts, join in signing an order, in pursuance of which they are taken from the vaults and destroyed.—Le Genie Civile.

*In truth, the complexity of the engraving on the face and reverse of our paper money affords a better opportunity for successfully counterfeiting than the paper money of any other country. There are nine denominations of currency, and in each denomination there are three classes, treasury notes of 1890, silver certificates and greenbacks, making a total of twenty-seven kinds of money in circulation, each having a design of its own. These designs are frequently so similar as to permit of raising. A $1 bill of any one class can be raised to $10, and frequently passes on the unsuspecting.

adopting a style of note which could not be imitated, so as to prevent the sad sacrifice of life which at this period was rapidly becoming of common occurrence, the punishment for forgery being death. The subject at last assumed so pressing a character that the government appointed commissioners to investigate the causes of the numerous forgeries, and whether a mode could be devised whereby the manufacture of counterfeit bank notes might be, if not effectually prevented altogether, at least made an exceedingly difficult operation.

"Previous to this investigation the directors of the bank had been endeavoring to remedy the evil, many plans having been from time to time submitted to them by various experts, all of which, however, they were obliged ultimately to reject. At one time they were on the point of actually adopting a curious and very costly machine for printing the note on both sides so identical in every respect as to appear but one impression, when a workman who had evidently been carefully considering the merits of the proposed project came forward and proved by practical demonstration before the members of the committee that the same thing might be done by the simple contrivance of two plates connected by a hinge. Altogether the bank placed before the commissioners one hundred and eighty different schemes which had been recommended for their adoption, and seventy varieties of paper made at their manufactory by way of experiment, in which almost every alteration suggested for adoption had been tried. The result of these laborious experiments and investigations was the bank note of the present day. The notes now in use are, in fact, the most elaborately manufactured 'bits of paper' imaginable. The paper alone is remarkable in many ways—notably for its unique whiteness and the peculiar 'feel' of crispness; while its combined thinness and transparency are guards against two once very popular modes of forgery; the washing out of the printing by means of turpentine, and erasure with the knife.

"The wiremark, or watermark, is another precaution against counterfeiting, and is produced in the paper while it is in a state of pulp. In the old manufacture of bank notes this watermark was caused by an enormous number of wires (over two thousand) stitched and sewed together; now it is engraved in a steel-faced die, which is afterwards hardened, and is then applied as a punch to stamp the pattern out of plates of sheet brass. The shading of the letters of this watermark further increases the difficulty of imitation. The paper is made entirely from new white linen cuttings—never from anything that has been worn—and the toughness of it may be roughly estimated from the fact that a single bank note will, when unsized, support a weight of thirty-six pounds. The paper is produced in pieces large enough for two notes, each of which exactly measures five inches by eight inches, and weighs eighteen grains before it is sized; and so carefully are the notes prepared that even the number of dips into the pulp made by each workman is registered on a dial by machinery.

"Few people are aware that a Bank of England note is not of the same thickness all through. In point of fact the paper is thicker in the left-hand corner to enable it to retain a keener impression of the vignette there, and it is also considerably thicker in the dark shadows of the center letters and beneath the figures at the ends. Counterfeit notes are invariably of one thickness only throughout.*"

The Bank of England never issues a note the second time; even if sent forth in the morning and returning in the afternoon, its flight, though very brief, is over, and it is put away within that great financial ark and kept for six years and then burned. When national bank notes are new, and all the work on them can be distinctly seen, it is quite easy to detect a counterfeit. No counterfeit notes are made either on as good paper or with the same degree of care as genuine bank notes, but the excellence of the latter is practically set at naught by keeping them in circulation after they have become worn. Banks are great sinners in pushing into circulation notes which they well know ought to be retained and sent back for redemption. It is a little trouble to put them aside, and there may be a slight loss of interest on such accumulations, but these considerations ought not to weigh against the greater security given to the public by keeping fresh notes in circulation. If individuals insisted on receiving only clean notes from others, and banks exercised more conscience in retaining imperfect notes and sending them back for redemption, the stream of circulation would be kept clear and the occupation of the industrious counterfeiter would be gone. By neglecting this simple duty and keeping out notes that are badly torn and worn, counterfeiting still flourishes, and the public lose many times over the cost of sending back worn notes and the expense and trouble of printing new ones in place of them. When banks, as well as individuals, become more particular in these regards we shall hear much less of counterfeiting.

Every bank should keep a record of its issues, and it is believed that very many banks keep a book of this kind. A brief explanation shows the need of such a book. One object of keeping it is to show what bills circulate the most generally, and therefore what denominations are required most when ordering new notes in the first instance, or in place of those destroyed. How shall a bank determine how many fives, tens, twenties and fifties to order? One method of getting this information is to make inquiries of other banks concerning their experience. Another way would be to make inquiry of the Controller of the Currency at Washington. Another element determining this question is the location of the bank, some banks requiring a larger number of smaller denominations than other banks. For the year ending October 31, 1897, the following circulating notes were ordered by new banks:

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*Cornhill Magazine.

Plate $5 $5 $5 $5	$361,740.00
Plate $10 $10 $10 $20	447,250.00
Plate $50 $100	62,400.00 *

Besides this record of new circulation received from the government, another is kept by the paying teller in his cash book, or in the general scratcher of the receiving teller. In this record the numbers on the notes are also entered.

A national bank note is a legal tender to other banks and also to the government, but is not a legal tender note between individuals. It is redeemable in legal tender notes, and, if coin is demanded, it is generally paid. As these notes are quite as good as those of the government, a demand is rarely made of a bank for legal tenders except to use in getting gold of the government, or for some particular requirement.

English people who take Bank of England notes often ear-mark them when they are received, putting the date and initial of the person from whom they were taken.† The object of this precaution is to trace them should this for any reason become necessary. The bank itself, when receiving them, takes the name and address of the receiver unless he is a regular customer. The credit of these notes, it may be remarked, is so perfect that they circulate all over Europe quite as readily as British sovereigns or the gold coin of any other country.

When notes are sent by the Treasury Department to the bank requesting them, the utmost care should be used to guard against their loss. Four notes are printed on a sheet, and in this form they are sent to their owners. They are usually carried by express companies, at the bank's expense. Though incomplete in form, if they should get astray, it would be easy for the finders, if rascals, to forge the signature of the president and cashier and put them into circulation. As the persons receiving them are not familiar with the signatures of the president and cashier, these form no safeguards against the counterfeiter. Many a note has been circulated, not signed by the president and cashier of the bank purporting to have issued the same. Notes

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*Four fives are printed on one plate, three tens and a twenty on another, and a fifty and hundred on the third plate.

†The following incident is taken from the Boston Commercial Bulletin: On one occasion the cashier of the Bank of England Branch Bank at Liverpool made a bad error in changing some Bank of England notes for a stranger. The stranger asked for some small notes in exchange for £150 in notes. Instead of passing him out £20 notes as the cashier intended, he paid him an equal number of £100 notes. Having taken the address of the stranger, the cashier, as soon as he had discovered his mistake, sent officers to the Isle of Man, where he had voyaged, and had him arrested. But the arrested party turned out to be a very respectable citizen, who had just discovered the cashier's error and who was making all possible haste to return the overpaid money.

are not infrequently sent out of the bank after they have been received to be cut and trimmed, and sometimes for the printing of one or both of the signatures. While the law does not forbid this, the Controller has directed that the signatures should be written by the president and cashier. A stamp should not be used. Notwithstanding this order the signatures are sometimes printed. It need not be added when this disposition is made of them that an officer of the bank should keep them under his eye during their entire absence, until the work of trimming and printing is completed.

Whenever a bank fails or retires from business, the government is furnished with enough notes of its own issue to redeem its circulation. The bonds of the bank held by the government are sold, and always yield more than enough to furnish the means for redeeming its notes. But it always happens when a bank fails or retires from business that some of its notes have been destroyed, and consequently will never be presented for redemption. The difference between the amount of money held by the government to redeem them and the amount of notes presented for redemption is a clear gain, and at present amounts to many millions. The Secretary of the Treasury remarked in his annual report for 1895 that "the gain to the government on account of national bank notes lost or destroyed, and which are consequently never presented for redemption, is estimated to be two-fifths of one per cent. upon the total amount issued, and has according to this estimate amounted to the sum of $2,805,715." Occasionally a note may be misplaced and preserved in a good condition for many years; ordinarily they are kept in circulation and go back for redemption, or are lost or worn out, and thus pass out of circulation.

Many will remember the fractional currency issued by the government during the civil war to supply the place of the minor coinage, amounting to $49,102,660.27. The paper on which it was printed was not of good quality, and it deteriorated rapidly. A few years afterward the government withdrew this currency, redeeming it whenever presented. Although it circulated only for a brief period $15,263,636 14 has never been presented for redemption, and more than half this sum is officially estimated to have been destroyed.

The banks claim that as the government retains the gain from the loss of their circulation it ought, besides paying for the expense of making the notes and printing them, etc., to pay all express charges attending their redemption and issue of new notes in place of others sent for redemption. Thus far, however, the government has not seen fit to pay the express charges only on the notes sent to the Treasury Department to be redeemed.

What is the mode of redeeming bank notes? We have already explained that every bank must redeem the notes issued over its counter in the legal tender notes issued by the government; but there

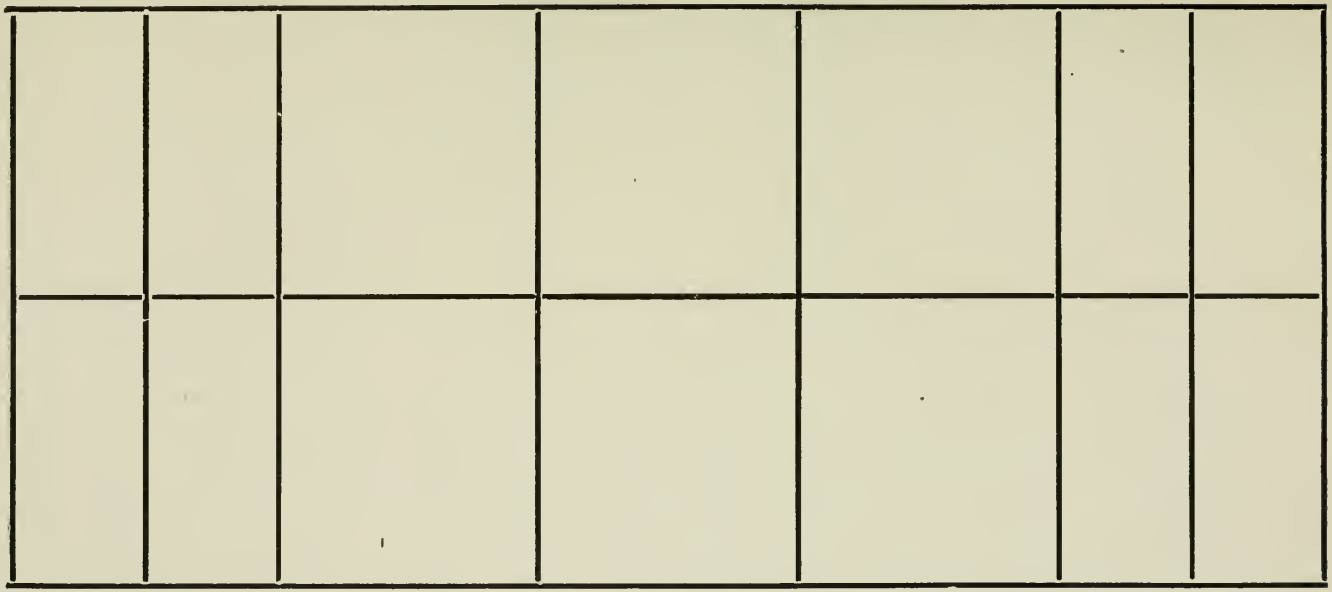
is another mode of redeeming notes through the Treasury Department at Washington. At the outset, the law providing for their redemption did not prove effective, and they remained in circulation until they became badly soiled and otherwise impaired, and it was seen that a better method must be devised of redeeming them, otherwise they would be worn out and lost while in the possession of the people. So in 1874 the present system was devised. By this, every bank is required to keep a fund with the United States Treasurer equal to five per cent. of its circulating notes. The notes composing the fund are issued by the government. Whenever a bank accumulates $1,000.00 of soiled notes, or multiples of that amount, issued by different banks, they are sent to the United States Treasurer for redemption. If a bank requests treasury notes to be sent back in lieu of those sent, it must pay express charges on the package; and to escape payment of this sum, it may simply request a draft, on which the money can be obtained at any sub-treasury without expense to the bank. The notes thus sent to the Treasurer are sorted and charged up to the various banks that issued them, and then they are cut into pieces and reduced to pulp. Formerly they were burned, but it is not such an easy thing to burn all the pieces of a bundle of bank notes as may be imagined, and experience has shown that the pulp process of destroying them is preferable. When the Treasurer has redeemed the notes of any bank to the amount of $500.00, it is requested to send a like amount to him and thus make its redemption fund good. One other step still remains to be described in this process of redemption. A bank whose notes have been redeemed to the amount of $500.00 can have new notes issued in place of them to a similar amount, and thus it will be seen that it is no loser by the operation.

It may be added that, at the time of the introduction of this system, the bills in circulation were in such a bad condition that during the first year of its operation $137,697,696.00 worth of bills were redeemed. The next year $98,672,716.00 more came in for redemption; in other words, in two years the larger portion of the bank note circulation was renewed.* The average life of an American bank note is about three years.

Very often parts of notes are missing, and regulations have been made regarding their redemption. A bank that issues a note, although a portion of it may be gone, is willing to redeem the remainder for the amount originally issued whenever satisfactory proof can be made that it is the only fragment or portion in existence. Some banks require the presentor of a fragment to make an affidavit giving some account of the note, from whom he took it, and his reasons for doing so, and his belief that no other portion of the note exists. The practice

*A table is published in the Annual Report of the Controller of the Currency of the notes issued, redeemed and outstanding each year.

FAC SIMILE OF DISCOUNT GLASS USED AT THE NATIONAL BANK REDEMPTION AGENCY FOR DISCOUNTING NATIONAL BANK NOTES.



Notes equaling or exceeding three-fifths of their original proportions, and bearing the name of the bank and the signature of one of its officers, are redeemable at their full face value.

among banks is quite different in this regard. The government, however, has a more rigid rule on the subject. It has a "discount glass" which it puts over such a note for the purpose of ascertaining how much is destroyed. Notes that equal or exceed three-fifths of their original proportions and bearing the name of the bank and the signatures of one of its officers are redeemed at their full face value. Notes of which less than three-fifths remain, or from which both signatures are lacking are not redeemable by the treasurer, but only by the bank that issued them. Fragments less than three-fifths, however, are accepted from the bank of issue for face value by the Treasurer whenever they are accompanied by satisfactory evidence that the missing portions have been entirely destroyed. Fragments redeemed by the bank of issue for less than face value are accepted by the Treasurer only when their valuation is equal to the face value of a note of some denomination issued by a bank, or some multiple thereof. The required valuation may be made up of several fragments of notes of the same, or different denominations, provided the total valuation of fragments of each denomination be $100.00 or some multiple thereof. Fragments, however, not equal to more than two-fifths are taken only when accompanied by evidence that the missing portions have been entirely destroyed.

National bank notes that are stolen when unsigned and put in circulation with forged signatures are not deemed to be notes of the banks purporting to issue them, and are not redeemed by the Treasurer. Finally, the notes of national banks that have failed are redeemed in the same manner and on the same terms as United States notes.

Once a year the account for redeeming bank notes is made up by the government, the principal items of which are the cost of transportation and assorting.* The expense is assessed on the banks in proportion to the circulation redeemed. The following letter received by a national bank in December, 1896, from the United States Treasurer contains all the details relating to this expenditure:

ASSESSMENT FOR EXPENSES—1896.

TREASURY DEPARTMENT, Office of the Treasurer,
Washington, D. C., December 1, 1896.

Cashier ——— National ——— Bank.

Sir: "The charges for transportation and the costs for assorting" the notes of National Banks redeemed during the fiscal year ending June 30, 1896, under the act approved June 20, 1874 (18 Statutes, 123), were as follows:

*See Controller's Report for 1896, p. 543.

Charges for transportation		$32,518.93
Costs for assorting:		
Salaries	$77,766.54	
Printing, binding and stationery	2,825.97	
Contingent expenses	974.19	
		$81,566.70
Total		$114,085.63

These expenses have been assessed upon the several National Banks in proportion to the circulation redeemed. The aggregate amount redeemed and assorted during the fiscal year was $101,409,451.50, giving $1.12½ as the average rate for each $1,000.

The amount of the notes of your bank redeemed and assorted during the fiscal year was as follows:

Charged to five-per-cent. redemption account, as specified in my advices of redemption	$136,320.00
The assessment thereon, at $1.12½ per $1,000.00, is	153.36

This amount has this day been charged to your bank in its five-per-cent. account.

Respectfully yours,

————————, Treasurer U. S.

CHAPTER VII.

DEPOSITS AND DEPOSITORS.

There are two kinds of bank deposits, general and special. General deposits are those received by a bank in the form of money. Special deposits, in the sense in which we are now using the term, consist of bonds and other securities taken for safekeeping. Years ago, before the creation of safe deposit companies, the customers of banks, with their permission, often deposited their securities with them for safekeeping. The accommodation was readily granted and much appreciated, because it was the only secure receptacle in many places for keeping securities. Since the creation of safe deposit companies banks are relieved of this duty, a duty which they are very willing to escape. Yet in many places bank vaults are still the safest receptacles for keeping securities, and millions of bonds and other valuables are kept by them for the accommodation of their customers.

The degree of care they must exercise in keeping securities has often been stated by the courts on occasions of their disappearance. The rule is that a bank must exercise reasonable care in keeping them, but no more, for the reason that they are paid nothing for this service. To state the principle somewhat differently, a bank is not bound to exercise as much care in keeping securities to accommodate its customers as it would be if it was paid for keeping them. For example, it is not obliged to exercise the same degree of care as a safe deposit company that is specially engaged in this business and is paid for the service.

Though the rule is well understood, yet as the facts in every case differ somewhat from those in every other, its application is often disputed whenever a loss occurs. Sometimes the evidence of negligence is so clear that a bank pays the loss. In other cases a bank feels sure that it has not been negligent and the owner, desirous of recovering, if possible, the amount, sues the bank, and thus the question finally reaches a court for its decision. If we are asked, Who wins? our reply is that in the larger number of cases the banks have won. Yet the cases are by no means rare in which bank officers have been negligent, and their institutions have been held responsible.

In a note we append a reference to some of the more important cases that have been decided by the courts during the last thirty years.*

There is another kind of special deposit, concerning which the rule of liability may be mentioned. Deposits of money are divided into two classes, special and general. Whenever a special deposit of money is made and put into the common fund and used like any other, we apprehend that a bank is liable for its loss in the same manner as for the loss of a general deposit. Whenever this is lost there is no question whatever concerning the bank's liability, for, as the relation of debtor and creditor exists between a bank and its customer, it is responsible for money received in the same manner as the maker of a note for money loaned to him by the payee. No maker of a note would ever think of defending on the ground that the money given to him by the payee had been lost. Having received it, the money becomes his, and he is in duty bound to repay at the proper time, regardless of its fate while in his possession. This is no concern of the lender, and the same principle applies to a special or general deposit of money used by a bank. If, however, a special deposit of money was made simply for safekeeping, then the same rule would apply to the keeping of it as applies to the keeping of any other security.

Many banks expect to make their profits, or a considerable portion of them at least, from the lending of deposits. As all know, the deposits in some banks are enormously large, and are the chief source of profit. A few examples may be given. They are New York City banks:

City National Bank	$128,152,500
Park National Bank	62,253,000
Hanover National Bank	52,913,600
Western National	42,067,200
Chase National	51,288,700
First National	71,992,500
National Bank of Commerce	60,378,000

These sums, large as they are, are very small compared with the deposits in some of the great English banks. A few examples are added:

Bank of England	$283,583,950
National Provincial Bank	241,566,815
London and County Banking Co	210,488,500
Lloyds' Bank	161,939,095
London and Westminster Bank	133,371,030
Barclay & Co	121,238,955

*Preston v. Prather, 137 U. S. 604; National Bank v. Graham, 100 U. S. 699; First National Bank v. Ocean National Bank, 60 N. Y. 278; Patterson v. Syracuse National Bank, 80 N. Y. 82; Smith v. First National Bank, 99 Mass. 605; Foster v. Essex Bank, 17 Mass. 479; Scott v. National Bank, 72 Pa. 471; First National Bank v. Zent, 39 Ohio St. 105; Whitney v. First National Bank, 55 Vt. 154; Ray v. Bank, 10 Bush (Ky.) 344; Third National Bank v. Boyd, 44 Md. 47.

How, then, can depositors be attracted to a bank? If there is only one bank in a place, naturally all deposits will flow into it, but if there are several banks, then deposits will be divided between them. In England, the practice of keeping bank accounts is more general than in this country, to the obvious advantage of all concerned. On the other hand, the practice of keeping bank accounts is more general in this country than in France. Nevertheless, there are many persons who might open accounts with banks, and by so doing benefit both themselves and the public. It is true that the savings banks draw a very large class of depositors, yet they do not exhaust the field. There are thousands of persons who severally receive every year a considerable sum of money, and if they deposited it not only would secure it from loss by thieves, but also from loss through wasteful use. Habits of thrift spring from the keeping of money; moreover the keeping of a bank account tends to increase the manhood of a person in his own eyes. It may indeed be questioned whether a bank can profitably mix up small deposits with large ones, but a bank may deal entirely with smaller depositors, and conduct its business in such a way as to extract a reasonable profit from the undertaking.

The persons who do much business and who receive and pay checks, etc., generally have bank accounts, and from a banker's point of view, the only question concerning them is, how can they be drawn from other banks, and from the depositor's point of view, what advantage is to be gained by changing from one bank to another. Every bank understands its peculiar position, and what it can do for its customers. We have already considered the question of changing from an old to a new or nearer institution. Suppose that two banks are located close by each other, and have essentially the same field for doing business. It is quite evident that one cannot offer any special advantages with the hope of drawing depositors away from the other, or expect to get more than its fair share of new ones, for any advantages thus offered would be immediately met by counter advantages from the other bank. Nevertheless, the business of banking, like almost any other business, is feeling the pressure of sharper competition, resulting in the giving of new advantages to depositors. Concerning the wisdom of granting them bankers maintain different opinions. On the other hand, it is said that the business of banking is undertaken for the sake of making money, and that if competition becomes too keen, and too many advantages are offered, nothing will be left as profits, and the business prove delusive and unsatisfactory. On the other hand, it is asked, Why should not bankers compete for business, the same as other individuals, and lessen, if need be, their profits derived from any particular customer with the hope and expectation of making as much in the aggregate from the expansion of business as before? This is the other way of looking at the question.

Some banks, established in large cities within a few years, have

acquired a large amount of deposits by offering unusual facilities and advantages to depositors. The older banks, from which many of them have been drawn, have well understood what was going on. Why, then, it may be asked, did they not check the current by offering as good or better advantages to depositors that were thinking of breaking away, or who had gone, to return? The answer is that such a course would be a discrimination between depositors that would surely be found out and cause ill feeling. Suppose a new bank should offer a depositor in an old bank interest on his deposits as an inducement to change his account? If this were the practice of the new bank, to pay interest on deposits, it could do so without fear of offending any depositor, but could an old bank offer to pay interest on the account of a depositor who was thinking of making a change if consenting to remain, without adopting a similar policy to all of its depositors? Surely not without danger of discovery and the withdrawal of many or all accounts.

To sum up the course which a bank must pursue in order to draw depositors depends on circumstances. When it is the only bank in a town it ought to expect, if properly managed, to command the confidence of everyone, and to attract all the money they have for deposit. Furthermore, we repeat, a bank should encourage deposits both for the profits that may be made on them as well as for the good of the depositors themselves. If there are several banks in the same place, they should observe such courtesies as will preserve the best relations between themselves and their customers, to grant such accommodations as are usual, and in short be guided by those principles which common sense clearly indicates are desirable for maintaining the best interests of all. Furthermore, it is not a good policy for any bank to try to be so much smarter than the rest. It should remember that it is an institution of trust, that it is dealing with money not belonging to itself, and which it has no right to jeopardize. There is danger, too, that a new departure may be followed by others to prevent the loss of business, and in the end all suffer. More than one excessively ambitious bank has involved others in its ruin through their efforts to sustain themselves by adopting its methods. As different rules and methods may be, and sometimes are adopted by a new bank surrounded by old ones, the question must be faced by them, "What shall we do to meet this new condition of affairs?" and the answer must be in pursuing such a policy which in the long run is likely to be the most profitable. If this consists in adopting the ways of the new bank, assuming that they are sound, then they should be adopted, otherwise the old methods should be preserved.

When a new bank is started in an old city, well supplied with banks, and with new methods and more inclined to favor depositors than the old ones, in other words, is contented with smaller profits with the expectation of an ultimate increase, it is likely to incur the opposition of older rivals. This is to be expected, and must be faced

by the new bank from the start. But what are the chances of success under such conditions? As we have already said, a bank is hardly justified in organizing to-day in any large city, expecting to draw enough business to make the undertaking profitable by offering unusual advantages over its rivals. The truth is, the new bank is usually at a decided disadvantage from having less capital, less surplus, less experience among its officers, less acquaintance among men, and, in short, from the lack of credit and good will surrounding an old institution. Suppose a new bank was started by the side of the Chemical National Bank of New York, a concern of world-wide reputation? Why should a depositor leave the Chemical National Bank to put his account with a new and untried institution? Can he get more accommodations? The Chemical has vastly larger resources than any new bank could have and is always willing to lend them on reasonable terms. Will the new bank demand less security? Safety in lending is the first and chief principle in successful banking, and a bank that proposes to attract customers by violating this is not worthy of support. Yet its violation is precisely the thing which new banks in the larger cities, unless sustained by unusually strong patronage, are too often tempted to do to get business. They are therefore rarely justified. In other words, the attempt to organize a bank in a large city, except under the conditions above mentioned, or in a new section where banking facilities are lacking, with the expectation of getting deposits by offering unusual advantages to depositors of other banks, is always hazardous, resulting disastrously in many cases during the last twenty years.

Some banks do not wish to take small accounts because the expense of taking care of them—making the proper entries and paying checks, etc., does not yield a sufficient profit. The Chemical National Bank, of New York, for example, does not wish to keep the account of a depositor whose balance does not average $5,000. There are other banks in that city having a $5,000 limit, some with a limit of $1,000 and of $500. The writer once asked the president of one of the largest banks in that city not long ago whose bank had a $1,000 limit, if this was observed by all of its customers. He replied, "By no means." "Well, how do you treat the depositors who keep more generally below than above the limit?" He replied, "We rarely cut one off. We keep him hoping and believing that his business will grow and that, after a while, his balance will be satisfactory to the bank." A banker, notwithstanding his solemn face, is one of the most hopeful of men; he is a man of faith; much trusted by others, he trusts them in return. Bankers do a great deal of business for others without getting any immediate reward, hoping that in an indirect way some return will be received. When an account is opened with a man he is rarely cut off unless there is a strong reason for severing the relation. If his balance is invariably small, if it fluctuates so much that it is profitless, and

especially if he is guilty of kiting checks or other practices whereby he is really trying to live on the bank and furnish nothing, he will be cut off; but so long as he is trying to do his best he rarely provokes such action.

Yet there are depositors who will present checks at one window and immediately draw against them at another; their bank books may show that they have large balances in the bank, when in fact they are constant debtors. Why should a bank keep such an account unless it charges interest for collecting the checks, or in some way reaps a profit from the business. Many a bank has accounts of this kind. If a banker is asked why, he will reply that he expects his customer will do better and that eventually he will keep an actual balance from which some profit can be extracted. And this leads to the remark that too often depositors regard a bank as a still larger number do the government and railroads, as insititutions from which it is all right to get as much as possible without any return. This is an entirely wrong attitude for a depositor to assume toward a bank. He should regard the relation existing between him and his bank as mutually helpful, and if he does not, the sooner the relation is severed the better for the bank. There are far too many one-sided depositors who see only their interest in establishing the relation. A depositor who is not willing to make some return for having his checks collected, his money safely kept, his drafts, his due bills, his certified checks, should not ask a bank to do these things for him.

One of the ways of attracting deposits is to pay interest on them. For many years this was not done by banks of discount and deposit in this country. It has long been a practice of banks in other countries, but not in the United States. The practice of paying is growing and the reasons for doing so may be briefly stated.

First, because the trust companies pay interest, and banks must follow suit in order to retain them. Sometimes a depositor keeps two accounts, one with a trust company in which he deposits the heavier and more valuable portion, receiving interest thereon, while the smaller and fluctuating portion is put in a bank of discount, on which interest is not expected or paid. Another reason for paying is that some banks believe that the profits which accrue from the lending of their customers' deposits ought to be divided with them. This is the view held by foreign bankers, and who accordingly in all the leading European countries do pay interest on the balances of their customers. Another reason for paying interest on deposits is because they are paid by rival banks; if this is not done business may be lost. For its own protection, therefore, whether willing or unwilling, a bank is often obliged to pay them.

On the other hand, the old-fashioned reason against paying interest on deposits is that banks will be more desirous of lending them in order to earn the money that must be paid to depositors, and to prevent

the loss which would be inevitable if interest was thus paid and not earned. The danger of incurring loss from paying interest is so great that banks are led into making loans that are not properly secured; and this is indeed so true that many States from time to time have enacted laws forbidding banks from paying interest on deposits. Most of the States have regulations of this kind applying especially to the deposits of individuals.

And yet it must be added that banks are permitted to pay, by statute perhaps in all the States; at all events are not forbidden from paying interest on the deposits they hold belonging to other banks. A bank or banker is unwilling to confide any portion of his deposits to another unless he can get interest on them; if this be so why should not the same rule be observed by individual depositors; and furthermore is the risk any greater in lending the deposits of an individual by a bank than the deposits received from another bank? Indeed, the practice between banks themselves contradicts their own notions concerning the non-payment of deposits to individuals. There is no more reason for forbidding the payment of interest on the one class of deposits than on the other, and if payment of them is permitted to one class, the permission ought to extend to all.

Another reason for not paying them applies especially to the depositor, that he is likely to get less accommodation from his bank in the way of loans than he would otherwise. Until within a few years depositors have not been strenuous in demanding interest because they have been large borrowers of money, and well knew that, if they demanded interest on their deposits, they would probably be accommodated with smaller loans, or at higher rates of interest. This is the other side of the question, and we presume that in many cases depositors still believe the prudent course is for them to let their banks have the use of their deposits without demanding interest, expecting to receive larger accommodations than would otherwise be granted to them. It is an important question with every depositor, whether if he demanded and received interest on his deposit, he would gain anything. Evidently the question must be answered by every depositor for himself. Banks are not philanthropic institutions, but are organized for the purpose of making money, and if their customers seek to get all they possibly can out of them in the way of keeping small balances, or of exacting too much interest, banks must square the account by demanding higher rates of interest and making smaller loans at times when they are most needed. Depositors who keep the largest regular accounts are the most highly favored; they can borrow the most money and at the lowest rates; and during times of panic and depression are the most likely to be accommodated. Many a bank has borrowed money during a time of panic and lent the same at a lower rate to its own customers, because they had kept large balances that had been very profitable. Banks well understand the nature of the accounts of

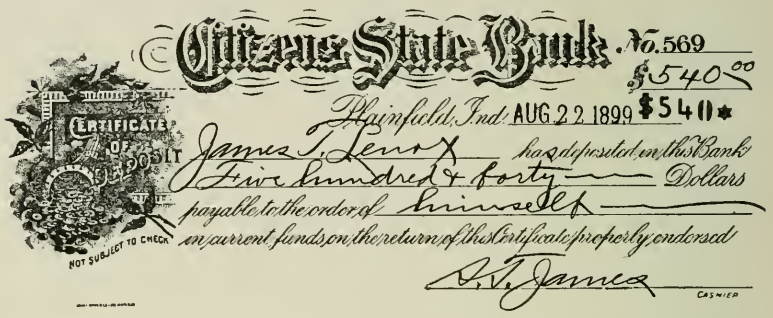
their customers and of their needs in business, and seek to treat them fairly in most cases. For the accounts that are worth the most to a bank it will make the best returns in some way, if not in paying interest. And this is just as well known by their customers. Therefore, we repeat, the question is by no means settled whether interest should be generaly paid on deposits here as in other countries.

The practice of paying interest, however, is growing, and it may become general, but the end is not yet. Another fact giving impetus to the practice is the rapid accumulation of wealth by business men, rendering them less dependent on banks than they were in the earlier days. Now they need less, can borrow elsewhere and at better rates, and their growing independence of banks leads them to ask less in return.

The payment of interest on public deposits rests on a somewhat different principle. First, the use of these deposits is well known as the laws and practice define the days when the State, city or other municipality must pay many of its obligations. Large portions of public deposits are therefore inactive, and banks can well afford to pay for the use of them, and the public may very justly expect that banks should do this. Moreover, loans are rarely made of banking institutions. As public deposits therefore are of a different nature, the public neither asking nor expecting loans or other favors, it is just that the public should exact its share of the profits made in lending them. We would not suggest that the State or other public bodies should lend their deposits, for this plan would probably result in favoritism and untold mischief. The public should insist on proper security for them, and when this has been furnished, to confide them to the banks for safe-keeping and such remuneration as under the circumstances they are justified in paying.

There is another class of deposits received by banks of discount for which certificates of deposit are given. On such a deposit interest is usually paid. No account is opened with the depositor and the certificate may run for an indefinite time, or two months, six months, or even longer period. If the certificate be for no fixed period, the statute of limitation does not begin to run against the deposit until after a demand has been made for the money. In other words, when a deposit is thus made, the bank is liable for the amount no matter how long may be the period before the owner or his representative calls for it. In some States, however, a different rule exists. If the owner does not call for his deposit within six years or other period specified by the statute of limitation, he is not entitled to his deposit. It sometimes happens that such a deposit is made and never demanded. There are thousands of unclaimed deposits in the old savings banks in the larger cities. Sometimes a bank having a deposit that has run for a long time is willing to pay it over to a claimant, though his title may not be perfect, first giving a bond of indemnity for the amount; but it must be

remembered that a bank is liable on its certificate until the statute of limitation affords protection, or payment has been made. The form of certificate given in the note below is in general use.


Citizens State Bank
No. 569
$540 00
Plainfield, Ind. AUG 22 1899 $541*
James T. Lenox has deposited in this Bank
Five hundred & forty Dollars
payable to the order of himself
in current funds on the return of this Certificate properly endorsed
A. T. James
CASHIER
CERTIFICATE OF DEPOSIT
NOT SUBJECT TO CHECK

In effect, a certificate of deposit is a check by a bank on itself. In issuing a certificate payable to a stranger it is well to have him write his signature on the margin of the certificate, so that when it comes back for redemption, the indorsement, if it has been transferred, can be compared with the depositor's signature, and its genuineness be assured. Again, every certificate when returned should be examined and compared with the original entry. By doing this the bank will escape the danger of paying a raised certificate. Of course, a bank should have either a ledger or some other book containing a record of the amounts and names of all its certificates of deposit issued, together with the dates and numbers.

In opening an account with a bank, the depositor's signature is requested and kept in a book or upon a card, termed a signature card, prepared for that purpose. The object of this is to have it for comparison with the signature on his checks or other obligations presented for payment. It may be asked, Is a paying teller familiar with the signature of every customer of the bank? He is with many of them. At all events, this practice was long ago adopted, and no bank would think of throwing it aside. As a bank is responsible for all payments made for the benefit of its depositors, their checks, notes, or other obligations, it must assure itself always that the signature in every case is genuine. If it is not, though a bank may have exercised the utmost caution in paying them, it must incur the loss; it cannot throw the loss off on its depositors. This often works great hardship, for again and again depositors, who have failed to detect the forgery of their signatures, have held their bank responsible for not having keener eyes than they themselves possessed. On this topic more will be said hereafter.

Besides the classification above given those who keep accounts with banks may be also classified as regular or irregular depositors. A

regular depositor is one who keeps, or aims to keep a steady balance of a certain amount. This is the most valuable kind of deposit for a bank to have because it can then determine what portion can be safely used. It is only by such a calculation that a bank is able to determine what it can do in lending deposits.

Irregular depositors are marked in various ways. First, is the man who deposits, it may be a large sum to-day, and draws it all out to-morrow or the day after, followed it may be by another large deposit soon afterward. Such a depositor is not worth much to a bank because it can make no use of his money. Then there is the depositor who is all the time trying to get more from the bank than he gives in return. The depositor who is kiting checks, or who deposits them and draws against them before their collection, are worthless to a bank; and they would not be encouraged, as they often are, by keeping their names on the roll if banks were not deluded with the hope that they would mend their ways and sooner or later keep profitable balances. Alas! how long has many a bank vainly waited for the reformation.

An example may be given. A man died not so very long ago in Warren, Penn., who was generally supposed to be worth $150,000.00, but who, in truth, was not worth a dollar. His reputation with the Citizens' National Bank, of that place, was excellent. He always protected every obligation, and could therefore get assistance whenever he wanted it, although the bank knew of his unique method of kiting checks and drafts. He had a system of "check kiting" that would put to shame the "Napoleon of finance" of New York. At one time he had a brother in Pittsburg handling oil for him, and he also had business relations with houses in Chicago and Philadelphia. If badly in need of ready money he would draw on his brother in Pittsburg at one day's sight, deposit the draft in the bank at Warren and be given the immediate use of the money. His brother would accept the draft in Pittsburg, and when it fell due would pay it with a draft on the agency in Chicago. The Chicago house would pay with a draft on the Philadelphia concern. The Philadelphia house would pay with a draft on the brother who lived at Warren. In that way he would gain sixteen days' time, and pay no discount.

On the steadiness of the deposits of a bank everything depends for its profitable operation. The deposits of a bank that are constantly shifting, like the sands of the sea, are very troublesome, and on them can be founded no sure calculations. What can a bank do with deposits that may be demanded any moment, whose owners have no regard for the interests or convenience of the bank, but are simply thinking of themselves? In truth, a bank receiving a large amount of such varying deposits that cannot be used, or only a very small portion of them, makes less than another bank with much smaller deposits of an essentially fixed character, the larger portion of which can be safely loaned.

An important thing, therefore, for a bank is kindly to insist, so far as it can, with every depositor that he must keep a fixed amount with the bank; or if at times needing his entire deposit to make unusual payments, that he will seek, so far as he can, to notify the bank and thus enable it to make calculations and consequently save it from embarrassment. If banks were more strenuous in these requirements, they would make more money and be relieved of much anxiety. In other words, depositors should be taught that the relationship is mutual, that they ought not to regard it as one-sided, and seek to make everything, not caring for the interests of the bank, while it, on the other hand, should be moved by the desire of rendering a valuable service to its depositors. This it can do, and this is usually done by banks, but the nature of the service and of the obligation between the two ought to be more fully emphasized.

Another class of depositors to be mentioned are women. In some of the large cities within a few years banks have been established in the residential portions expecting to draw their deposits chiefly from women. There are several banks of this character in our large cities that have been exceedingly profitable. Usually women depositors do not borrow money, but occasionally overdraw their accounts. An amusing story is told of a depositor who had overdrawn her account. The cashier notified her of the fact in a most courteous manner, and she replied very sharply, sending him a check on the bank for the amount of the overdraft and saying to him that she had plenty of money there and did not wish in the future to receive any more notes of that kind.

The ordinary relation between a bank and its depositor, as we have remarked, is that of a debtor and creditor. But between them another relation may be established. If A, who has not an account at a bank, takes a check there to be collected expecting to pay something for the service, which is duly performed, the bank is the agent of the owner of the check and the money collected belongs to him; and should the bank fail he would have a preference over ordinary depositors. This principle has long been established, and is constantly applied. Whenever this agency or trust relation exists, the depositor or customer is the owner of the obligation intrusted to the bank, and likewise the owner of the receipts taken by it in the course of its collection.

It often happens, however, that both relations may be established between a bank and a customer, at successive periods during a transaction. For example, suppose a regular depositor leaves checks with a bank for collection, which are indorsed in such a manner as to retain his ownership of them; should the bank fail before their collection, he could recover them because he is the owner. Suppose these checks are collected and the money is mingled with his general account as a depositor? The trust or agency relation created in the beginning is then changed into the ordinary relation of debtor and creditor, and

should the bank fail after making the collection, the depositor would fare like other creditors.

An interesting illustration may be given in which this principle was applied. During the civil war the Marine Bank of Chicago addressed a circular to its correspondents, informing them that, in consequence of the derangement then existing in the currency of Illinois, it would be compelled to place all funds received in payment of collections to their credit in such currency as was received in that city—bills of the Illinois stock banks—to be drawn only in similar bills. The Fulton Bank, for which a collection was made, received the notice. At the time of making it the bills were from five to ten per cent. below par, but, when the Fulton Bank demanded payment of the collection, a year afterward, the bills had declined fifty per cent. in value. It insisted that it was entitled to the value of the bills at the time when they were received by the Chicago bank, while the bank claimed it was not obliged to pay only their value in coin at the time payment was demanded, with interest. Mr. Justice Miller, who delivered the opinion of the court, said that, "If the Marine Bank had received the depreciated money, and kept it without using it until called for, or had sent it by express to the plaintiff it would then have been relieved from further liability. In other words, so long as the defendant retained strictly the character of agent, and acted within the principle laid down in the circular, it was protected." But instead of doing this the Marine Bank changed the relation of principal and agent into the ordinary one of debtor and creditor by using the money as a general deposit. Hence the bank was declared liable for the depreciation in the bank bills received during the period it kept the deposit.*

This principle is of the highest importance in dealing with deposits, and banks are constantly seeking to apply it in such a way as to retain the ownership of their notes and checks sent out for collection and their proceeds as far as possible. The cases are constantly arising especially when banks fail, which of the two relations existed between the failed bank and the other, the agency or trust relation, or that of debtor and creditor. When the Fidelity National Bank, of Cincinnati, failed a few years since, a large crop of questions arose out of the arrangements which that bank had with other banks for collecting their checks. Various interpretations were put on these contracts, and a reference to some of the cases in which they were considered may be desirable, for the principles set forth, and also for the contracts themselves.†

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*2 Wallace 252.

†First Nat. Bank *v.* Armstrong, 39 Fed. Rep. 231; Commercial Nat. Bank *v.* Armstrong, 39 Fed. Rep. 684; Fifth Nat. Bank *v.* Armstrong, 40 Fed. Rep. 47.

Thus much concerning the nature of the contract between banks and their depositors. It need hardly be mentioned that a bank ought not to receive deposits when it is in an insolvent condition. In many cases this is clearly a fraud, and the officers who take the deposits may be punished. Within a few years many of the States have passed statutes making their receipt at such times a penal offense; at common law, too, such conduct is clearly a fraud, and the deposits may be recovered. They do not go into the general mass and become subject to the same burdens as other assets. The statutes, however, are more specific and increase the offense. Missouri was perhaps the first State to enact such a statute.

The true owner's name should appear to every deposit. This is obvious without further remark. Yet in savings banks especially deposits are constantly made in the name of some other person as trustee, although this is a pure fiction.

It happens every now and then that a person is sued and his deposit in a bank is attached in order to secure the debt of the suing creditor. When this is done of course a bank should not pay it over, but hold the amount attached subject to the order of the court. Sometimes there are several claimants; the bank should then hold it until they have determined, by proper legal proceedings, unless reaching an amicable settlement, to whom it shall be paid.

Every well-conducted bank has a book in which everything of importance pertaining to the credit, ability and character of their customers is noted. Papers are diligently read and reports scanned, inquiries are made of persons who are supposed to know about others; all kinds of business are investigated with care; occasionally a considerable sum is paid to an individual for making a special investigation into the affairs of a customer. Very often these investigations and inquiries must be made with great tact and secrecy. If a customer were to find out that he were under a telescopic investigation, he might be offended, withdraw his account, and vengefully exert himself to injure the bank. On the other hand, no faithful bank manager should be negligent of his duties in this regard. No opportunity for inquiry should be neglected. The most successful bank managers are those who are most diligent in conducting these investigations, and in watching all the complicated movements of trade.

Every bank should know as much as possible concerning each of its customers, and the information obtained should be carefully recorded and preserved. In a large business it would be impossible for any officer to remember the different terms and agreements and understandings fixed with its various customers from time to time, and therefore it is the practice of a systematic officer to write or dictate to his stenographer, immediately after an important interview with a dealer, the substance of what has been said. Some banks have found that the most advantageous way is to have a very large scrap-book

prepared, in which all records of conversations, statements of condition, agency reports, etc., etc., are pasted. The book should be made with numbered leaves, and with short stubs to which papers can be pasted, and with still shorter stub leaves to fill up the book, so that when it is full the back will not be broken. A voweled index separately bound should accompany such a scrap-book. Between each numbered leaf there should be room for, say, three of the shorter stub leaves on which papers could be pasted. These shorter leaves would be numbered 1, 2, 3, and the entry on the index would therefore be, say, as follows: John Smith & Co., Book No. 1, page (say) 2-185, which would mean that on section 2 of page 185, in scrap-book No. 1, there could be found a record of all that was known concerning John Smith & Co. A succeeding administration would therefore be able to know just about as much concerning John Smith & Co. as the officer who directed the entry. Of course, such systems as the foregoing require systematic and regular attention, which usually cannot be given by either the cashier or president, and therefore a clerk must be employed for the purpose. In some large banks a young man is employed as a "credit clerk," whose almost exclusive duty is to go about in the various trades for the special information required, and record what is learned in the above-described Bought Paper Book and Dealers' Scrap-Book.

CHAPTER VIII.

DIRECTORS AND LOANS.

SECTION I.

THE SELECTION AND GENERAL SUPERVISION OF DIRECTORS.

In organizing a bank the first question is the number of members. Five is the minimum number prescribed by the national banking law, and some banks have no more; others have a larger directory, representing, if possible, the leading trades in the place of its location. The reason for creating a representative board is obvious. The representative of a particular trade is supposed to be familiar with the condition of the persons thus engaged, their wealth and modes of business. If a bank was located in a city where the tobacco interest was prominent, it would probably have a director, if he could be obtained, familiar with that business, and able to judge of the worth of the tobacco paper presented for discount. If a bank was located in a city largely engaged in the iron industry, one or more of the directors would probably be engaged in that business.

It need not be remarked that great care should be used in selecting directors. Sometimes the chief motive in making a selection is the belief that he will attract business, not expecting that he will ever, or only on rare occasions, attend board meetings. A bank in New York city has in its directory a prominent railway official who lives in the Northwest. It was not expected, at the time of electing him, that he would come to New York twice a week to attend board meetings, yet he has been a valuable director, influencing banks and other depositors in his section of the country to keep their New York account with his bank. Every person chosen a director is supposed to be of some worth to the institution, either because of his knowledge of the persons who are likely to present paper for discount, or because of his general business capacity, or fine repute.

It is important for a bank to know what are the motives, so far as they can be ascertained, of those who serve as members of its directory. In choosing them the bank has a clear object in view, to strengthen itself, to attract customers, and to have the benefit of their experience; but the directors themselves may have very different motives. They may be purely selfish, willing to serve in order to get

loans and other accommodations. If a person serves simply with the view of helping himself, and not of aiding the bank, he should be dropped on the discovery of the mistake. It follows that a man who organizes a bank with the view of collecting funds to be diverted to his own use perverts the objects of the association, fools those who are engaged with him, and too often ruins his bank. We have recently read of the failure of a bank in Michigan owing its depositors $225,000. Of this amount the president had borrowed $190,000 and used it in his own business. Having failed in this, the bank was compelled to suspend; indeed, was totally wrecked.

Again and again have banks failed because they were officered by one or two men, or a ring, who had not the good of their depositors in mind so much as their own special profit. Banks organized for a personal purpose should, without exception, be let alone whenever this purpose is known. The national banking law prescribes that no director shall borrow more than ten per cent. of its capital, but this provision has often been violated through the negligence or connivance of the directory. One man, the president it may be, or a small body of men, organize a bank, or obtain control, and disregarding this provision of the law, run it for their own ends. This is not only a perversion of the law, but a wrong to depositors, for one of the objects often in depositing is to obtain accommodations, and these cannot be granted when all the money is lent to a few.

Some directors attend meetings with regularity, and take a deep interest in the affairs of their bank. They seek to enlarge its sphere and to increase its gains. There are other directors whose presence is a surprise. A third class appear irregularly, and sometimes are troublesome in their endeavor to learn concerning all the business done at the meetings when they were not present. They are usually retained in spite of their ways for one reason or another. If they attended regularly most of their questions would be unnecessary. Time would be saved, and the temper of their associates would not be tried. In a large board of twelve or fifteen directors it is hardly possible to have unanimity on all occasions, and yet each director may fill his valuable niche in the institution. Each one, whether pleasant or disagreeable, whether regular in his attendance or otherwise, may through his wealth, or business relations, or knowledge, serve a useful purpose.

It may be added that a director cannot vote a compensation to himself for any service he may have rendered, whatever may be its value. In one of the most recent cases the court remarked: "Directors have not the authority to vote salaries to themselves after their election as directors, nor can they in any instance vote a salary to one of their number as president when he takes part in the proceeding, or his vote is essential to the adoption of the resolution."*

*Wickersham v. Crittenden, Cal. Sup. Ct., 28 Pacific Reporter 791.

Having considered the composition of a bank directory, we may next consider what duty is undertaken by a director when assuming that relation. This question has often been asked and answered. The Supreme Court of the United States, however, did not answer the question for national bank directors until 1890, on the trial of the case of Briggs v. Spaulding. The members of the Supreme Court were almost equally divided, five to four, concerning the rule of liability that should be applied to directors of these institutions. The principal utterance of the majority of the court was as follows: "It is perhaps unnecessary to attempt to define with precision the degree of care and prudence which directors must exercise in the performance of their duties. The degree of care required depends upon the subject to which it is to be applied, and each case has to be determined in view of all the circumstances. They are not insurers of the fidelity of the agent whom they have appointed, who are not their agents, but the agents of the corporation; and they cannot be held responsible for losses resulting from the wrongful acts or omissions of other directors or agents unless the loss is a consequence of their own neglect of duty, either for failure to supervise the business with attention, or in neglecting to use proper care in the appointment of agents."*

But the minority would have adopted a serever rule. Judge Harlan, the spokesman for the minority, declared: "We are of opinion that when the act of Congress declared that the affairs of a national banking association shall be 'managed' by its directors, and that the directors should take an oath to 'diligently and honestly administer' them, it was not intended that they should abdicate their functions and leave its management and the administration of its affairs entirely to executive officers. True, the bank may act by 'duly authorized officers or agents,' in respect to matters of current business and detail that may be properly intrusted to them by the directors. But, certainly, Congress never contemplated that the duty of directors to manage and to administer the affairs of a national bank should be in abeyance altogether during any period that particular officers and agents of the association are authorized or permitted by the directors to have full control of its affairs. If the directors of a national bank chose to invest its officers or agents with such control, what the latter do may bind the bank as between it and those dealing with such officers and agents. But the duty remains, as between the directors and those who are interested in the bank, to exercise proper diligence and supervision in respect to what may be done by its officers and agents.

"As to the degree of diligence and the extent of supervision to be exercised by directors, there can be no room for doubt under the authorities. It is such diligence and supervision as the situation and the nature of the business requires. Their duty is to watch over and

*141 U. S. Rep. 147.

guard the interests committed to them. In fidelity to their oaths, and to the obligations they assume, they must do all that reasonably prudent and careful men ought to do for the protection of the interests of others intrusted to their charge."*

The court was so nearly divided that the question can hardly be regarded as definitely answered. The general opinion is that bank directors should observe a stricter supervision than was prescribed by the majority of the court.

The opinion expressed by Judge Severens in the note below is worth giving, because we think it clearly embodies the intention of Congress.†

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*Page 169.

†In a recent case Judge Severens, sitting as a judge in the U. S. Circuit Court for the Western District of Michigan, thus defined the duties of a national bank director:

"In my opinion, it does not meet the requirements of the law that directors may confide the management of the operations of the bank to a trusted officer, and then repose upon their confidence in his right conduct without making examinations themselves, or relying upon his answers to general questions put to him with regard to the status of the affairs of the bank. To begin with, it is to be assumed in every case that the directors have not selected any other than a man of good reputation for capacity and integrity. Any other idea assumes that they have been guilty at the outset of a glaring fault. Further, it is a well-known fact that a large proportion of the disasters which befall banking institutions come from the malfeasance of just such men, and it would be manifest to everybody that only a satisfactory and quieting reply would be made by the official who has any reason for concealment. Again, what are the duties of management that are committed to the cashier, or the officer standing in his place? They are those which relate to the details of the business, to the conduct of particular transactions. Even in respect of those, his duties are conjoint with those of the board of directors. In large affairs it is his duty to confer with the board. In questions of doubt and difficulty, and where there is time for consultation, it is his duty to seek their advice and direction. It is his duty to look after the details of the office business, and generally to conduct its ordinary operations. It is the right and duty of the board to maintain a supervision of the affairs of the bank; to have a general knowledge of the manner in which its business is conducted, and of the character of that business; and to have at least such a degree of intimacy with its affairs as to know to whom, and upon what security, its large lines of credit are given; and generally to know of, and give direction with regard to, the important and general affairs of the bank, of which the cashier executes the details. They are not expected to watch the routine of every day's business, or observe the particular state of the accounts, unless there is special reason; nor are they to be held responsible for any sudden and unforeseen dereliction of executive officers, or other accidents which there was no reason to apprehend. The duties of the board and of the cashier are correlative. One side are those of an executive nature, which relate mainly to the details. On the other are those of an administrative character, which relate to direction and supervision; and supervision is as necessarily incumbent upon the board as direction, unless the affairs of banks are to be left entirely to the trustworthiness of cashiers. Doubtless there are

On the other hand, it is said that if a stricter rule of liability were applied to directors, many who are now serving would immediately resign, and their places would be filled by others less highly regarded for their business ability. Many a director frankly says that he cannot afford to give the time required to attend all the meetings. If, therefore, the rule of liability was stricter banks would be obliged to select persons who have more leisure, persons not actively engaged in business, and less qualified to render assistance. The choice then seems to be between the leading men in a community who are able to attend somewhat irregularly, though often giving valuable advice on other occasions, and men less competent who would not be worth much if they did attend. What, then, shall a bank do? If it relies on the latter class, less assistance would be rendered by them than is rendered by those now serving, who attend less frequently, but whose knowledge, whether obtained at board meetings or on other occasions, is truly worth something. Evidently, banks believe that the wiser course is to continue to choose directors as they have done, to fill vacancies with similar men, otherwise they would have made different selections. In every board

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many matters which stand on middle ground, and where it may be difficult to fix the responsibility, but I think there is no such difficulty here. The idea which seems to prevail in some quarters, that a director is chosen because he is a man of good standing and character, and on that account will give reputation to the bank, and that his only office is to delegate to some other person the management of its affairs, and rests on that until his suspicion is aroused, which generally does not happen until the mischief is done, cannot be accepted as sound. It is sometimes suggested, in effect, that, if larger responsibilities are devolved upon directors, few men would be willing to risk their character and means by taking such an office; but Congress had some substantial purpose when, in addition to the provision for executive officers, it further provided for a board of directors to manage the bank and administer its affairs. The stockholders might elect a cashier, and a president as well. The banks themselves are prone to state, and hold out to the public, who compose their boards of directors. The idea is not to be tolerated that they serve as merely gilded ornaments of the institution, to enhance its attractiveness, or that their reputation should be used as a lure to customers. What the public suppose, and have the right to suppose, is that those men have been selected by reason of their high character for integrity, ther sound judgment, and their capacity for conducting the affairs of the bank safely and securely. The public act on this presumption, and trust their property with the bank in the confidence that the directors will discharge a substantial duty. How long would any national bank have the confidence of depositors or other creditors if it were given out that these directors, whose names so often stand at the head of its business cards and advertisements, and who are always used as makeweights in its solicitations for business, would only select a cashier, and surrender the management to him? It is safe to say such an institution would be shunned and could not endure. It is inconsistent with the purpose and policy of the banking act that its vital interests be committed to one man, without oversight and control."—Gibbons v. Anderson, 80 Fed. Rep. 345.

there are two or three, or perhaps more, who are selected because they have time to attend meetings, advise and render other assistance. Generally, however, the attendance by the larger number is rare. And in the large cities especially only a few banks have boards whose attendance is general. But the remark is worth repeating that many directors, who are not able to be present at stated meetings, often go into the banks with which they are connected, it may be half a dozen times a day, and make inquiries concerning the paper that has been discounted or offered for discount, and make valuable suggestions relating to its business. The true worth of a director, therefore, cannot always be measured by his attendance at board meetings, nor his efficiency when thus present. And his interest in his bank shown outside board meetings should be considered by courts when answering the question whether he has been negligent or not in performing his duties. We know that the directors of one of the most prosperous banks in this country hardly ever attend board meetings, and yet most of them are in the bank almost every day and take the deepest interest in its affairs. They do not attend the meetings with regularity because they are very busy men, and it is difficult for them to be present at stated times. That bank surely would not act wisely in substituting for these men, who are large shareholders, other men owning less stock and possessing less business ability though having more time and disposed to do their best.

A board of directors can act legally only as a board. The action or promise of a director outside is not binding on the bank. There are some important questions concerning the effect of knowledge coming to him of the affairs of the bank, and how far his duty extends in communicating anything of importance that he may hear. Whatever his duty may be, it is certain that only as a board are the acts of any member binding.

The duties and powers which are usually conferred on the board by the national and state laws may be classed as legislative, supervisory and appointing. The legislative power consists in creating such offices as the business of the bank shall render necessary, regulating their duties and salaries; directing the modes in which the bank shall be conducted, and generally all that pertains to the management of the stock, property, and effects of the corporation. The appointing power consists in selecting proper incumbents for the created offices, while the supervisory power is indicated by all the foregoing, and by the ability to dismiss the appointees at pleasure. But a man cannot properly supervise himself in the performance of public services, nor limit and regulate their scope and extent, nor fix his compensation therefor; hence the powers of the board can be exercised efficiently only on persons who are not members of the board. Nor is the inexpediency of uniting in the same person the duties of grantor and grantee, master and servant, agent and principal, a contrivance of man; it proceeds

from his organization. No person can sit at a board of directors without observing that agents who are not directors, are supervised more freely than agents who are directors. A practical admission of this is evinced by some discordant boards, who, in deciding on paper offered by directors, vote by a species of ballot, while in other boards, the offered notes are passed under the table, from seat to seat; and a note is deemed rejected, if, in its transit, some director has secretly folded down one of its corners. Even the separation of the legislature into two chambers, checks the esprit du corps, and pride of opinion which would urge one chamber into extremes, with no means of extrication from a false position. A separation operates like the break of continuity in an electric telegraph, arresting a common sympathy, passion, or prejudice, which, in a single chamber, rushes irresistibly to its object. Still, in many banks (the Bank of England included) the president (entitled governor in the Bank of England) is the chief executive officer, as well as head of the legislative department. The Bank of England is, however, controlled by twenty-four directors, the largeness of which number naturally mitigates the influence of the members individually, and hence diminishes ratably the objection against its executive organization. Such an organization may operate well, where the board consists of a small number of members, yet the good is not a consequence of the organization, but in despite thereof; for, whatever weakens the power of supervision, must diminish its benefits. The joint-stock banks of England are all controlled by officers called managers, and who are not members of the board, though they sit thereat ex officio for mutual explanation and instruction.

That the board should legislate, supervise and appoint, but not execute, occasioned probably the exclusion from the directorship that early prevailed, and widely continues, of the person who occupies the office of cashier, and who, with us, was once almost universally the chief executive bank officer. But the executive power, located, should center in only one person; a divided responsibility creating necessarily a divided vigilance. Thirteen men acting as an executive will not produce the vigilance of one man multiplied by thirteen, but rather the vigilance of one man divided by thirteen. The inspection of a picture by ten thousand promiscuous men will not detect as many imperfections in it as the scrutiny of one person, intent on discovering to the extent of his utmost vigilance; hence, large assemblies refer every investigation to a small committee, the chairman of which is expected to assume the responsibility of the examination, while the other members are more supervisors than actors. Here, again, as in most other modes which business assumes by chance apparently, our organization dictates the mode. When, therefore, we want an army of the highest efficiency, we possess no alternative but to intrust it to a single commander-in-chief; and if we want a bank of the highest efficiency, as respects safety and productiveness, we must intrust it to a single exec-

utive, under any title we please; but to one man, who will make the bank the focus of his aspirations, and know that on his prudence and success will depend the character he most affects, and the duration of his office, with all its valued associations and consequences.

If the proposed organization is the best that can be devised for a bank, the magnitude of power to be delegated is no proper argument against its delegation, but only a motive for prudence in selecting the delegate. A man of known skill and established fidelity is not always procurable for the proposed duties, especially by small banks that can not render available a breach of the tenth commandment. But, providentially, the world is not so dependent on a few eminent men, as their self-love and our idolatry may believe. Every well-organized person possesses an aptitude to grow to the stature of the station in which circumstances may place him, and some of the most successful bankers of our country acquired their skill after they became bankers. The like principle is discoverable in all occupations, the highest not excepted. Few of our judges, generals, diplomats, legislators, or civil executives were accomplished in their vocation before they became invested therewith. Skill is consequent in some degree to station and its excitement, though a vulgar error expects (what is impossible) that official dexterity and competence should be possessed in advance

The duties of a board will rather commence than end with the appointment of its executive. Their proper duties are supervisory. Nature aids the discharge of such duties when the supervisor is distinct from the supervised; indeed, one of the most difficult tasks of a supervisor consists in restraining the undue captiousness that is natural to the position. The president of the bank, as head of the corporation, cannot perform supervisory duties too efficiently, and he may well be entitled to a pecuniary compensation therefor. He should deem them under his special charge, but not to supersede therein the modified duties of the other directors. Supervision over the manager's official proceedings will be as salutary to him as proper to the board. Darkness is proverbially unfavorable to purity, but only by reason of the concealment it creates; every other means of concealment is equally productive of impurity. A man can easily reconcile to his judgment and conscience what cannot be reconciled to disinterested supervisors; hence, if an officer knows so little of human nature as to deem supervision offensive, he is unfit to be trusted. That the supervision may be full, it must be systematic. Every director will usually attend meetings of the board in a degree inverse to their frequency, but twice a week, or certainly once, where the bank is not very small, will be as short as is compatible with a due inspection, singly, of the loans, in some regular order, that may have been granted by the manager since the last session of the board. A director will thus learn individually whether the power to make loans has been prudently exercised; and he will learn the opinion which any of the board may express in relation

to the borrowers or their sureties, especially in cities where borrowers are generally known to the board; and a manager may advantageously defer to it the consummation of many loans in relation to which his own information is questionable, or about which he desires time to deliberate. Such a deferring will often constitute a less offensive mode of avoiding an objectionable discount than a direct and personal refusal, though truly the kindest act a banker can perform, next to granting a loan, is to promptly inform an applicant that he cannot succeed, when the banker knows the loan will not be granted.

The supervision of the board must be as comprehensive as the powers of the manager. The revision of loans will enable the board to ascertain, not merely the solvency of the bank's assets, but whether its business is conducted without partiality, or unwholesome bias of any kind. Nearly every undue partiality possesses concomitants that may lead to its detection; for instance, an unusual laxity of security, or length of credit; with unusual frequency of renewals in a direct form, or an indirect, so as to screen the operations. A manager, properly sensitive of his reputation, and properly diffident of his natural infirmities, will be reluctant to grant loans to his relatives, or special friends; and never to himself, or any person with whose business operations he is connected. To enable directors to judge of these particulars, a regular attendance at the stated meetings is necessary; but memory alone must not be relied on, except to suggest queries, which should always be capable of solution by proper books and indexes, that must be within reach of the directors; who should habitually inspect the books, that the practice may, in no case, seem an invidious peculiarity. In all scrutinies, however, the directors should remember that in mere judgment and expediency they may differ from the manager, and he may still be right, for banking constitutes his business, while to them it is an incidental occupation. Lenity is proper even to his undoubted errors, when they are of a nature which experience may correct; but time will only inveterate bad intentions, and their first unequivocal appearance should produce an unrelenting forfeiture of his office.

The board must understand the liabilities of the bank to its depositors, bank-note holders, and other creditors; also the funds of the bank, and its available resources; so as to judge how far the honor of the bank is safe in the care of its manager. The character of depositors and borrowers are also proper subjects of general scrutiny by the board, by reason that the reputation of a bank is inferable from the reputation of its dealers; not that disreputable people should be rejected as depositors, but a bank is not an exception to the proverb which speaks "of birds of a feather;" and when the customers of a bank are generally respectable in their character and business, we may be sure that the management of the bank is at least ostensibly moral and mercantile.

The ticklers of a bank are books which show in detail the debts due, prospectively to a bank, and the days of payment. The aggregate footing of the ticklers will accordingly exhibit the amount of loans not yet matured, and inductively the amount that is past due. The information which relates to the amount past due is often given reluctantly, but a knowledge of it is vastly important in the proper supervision of a bank; and when tested by the ticklers, the information cannot well be deceptious, or evaded. In knowing the amount of the past due loans, the board can pretty accurately conjecture the character of the bank's customers. Such loans should be satisfactorily explained by the manager, and the means he is taking in their collection. The like may be said of over-drafts,* which are rarely permitted by American bankers, though in England they seem to constitute one of the regular modes of advancing money to customers. Whether they shall be permitted is within the proper discretion of the board, and should they occur, inadverently, the occurrence ought to be manifested to the board. An exemption from losses is impracticable in long-continued operations; yet all grades of intellect are procurable, hence the retention of an officer is unwise when his results are unsatisfactory. Every man can adduce excuses which no person may be able to controvert; but when miscarriages are frequent, or important, the board should assume that something wrong exists and eludes detection, rather than that nature deviates from her accustomed processes, making vigilance unsafe, and skill unprofitable.

The examination of vaults, and counting of money, rarely reveal defalcations, till the defaulter no longer endeavors to conceal his delinquencies. The counting is not pernicious, if the board choose to amuse their vigilance therewith; but we have not attempted to designate modes in which frauds are detectable; the ingenuity of conceal ment being naturally as great as the ingenuity of detection. Besides, the detection of skillful frauds requires a greater familiarity with banking accounts, a more laborious inspection of bank books than can ordinarily be expected of bank directors. For the detection of frauds, therefore, the best practical reliance is a supervision, in the way we have indicated, of the bank's business, and a familiar observation of the general conduct, habits and expenses of the manager, as well as of all the subordinate officers; the latter, however, are more especially within the duties of the manager. The ruin of a bank, by fraud, commences usually in the personal embarrassment of the delinquent, contracted by improper self-indulgences, or the assumption of secret hazards. Men rarely plunder till their conduct is otherwise disorganized, external symptoms of which observant directors may discover. A bank officer, therefore (and the higher his official position the more

*The term "over-draft" means that the depositor has drawn for more money than the balance to his credit.

urgent the rule), who will not keep disengaged from all suretyship and from business that may render him pecuniarily necessitous, is as unfit to be intrusted with a bank, as a nurse who frequents small-pox hospitals is unfit to be trusted with unvaccinated children. In menageries, animals are kept peaceful by preventing the cravings of hunger; bank executives require a similar assuasive; not by glutting them with great salaries, but by preserving them from expenditures unsuited to their income, and from pecuniary liabilities. A bank manager of undoubted wealth presents therein the best attainable guaranty against misconduct, and is entitled to greater freedom of action in his personal transactions than officers of ordinary circumstances; still we will venture the advice that when a man wants to be more than a bank manager, especially when he wants to employ much more than his own funds, he had better cease from occupying a station which he is too ambitious or too avaricious to fill under restraints, which experience shows are alone safe.

Some years ago when a loss happened in one of the New York banks by the wrongful action of a loan clerk, a director thought it would be well for them all to make a thorough examination of the business of the bank. Another asked the president what he thought of the suggestion. He replied that it would be a good thing for them to do. They then inquired where the examination should begin, and he replied by suggesting that it might be well for them to count the paying teller's cash. This proved a somewhat longer task than they anticipated, but they clung manfully to their work. They then came to the president for instructions. He told them to examine all the paper that had been discounted and the names of the makers and indorsers, and this was done. Again they were ready for something more, and he said they might start with one of the ledgers and compare the entries with the sources from which they were taken in order to verify the work of the bookkeeper. Once more their self-imposed task was resumed. After a short time they came into the president's room and confessed that they did not know what they were about when they undertook to make a complete examination of the bank. They then learned for the first time in their lives that to know all about the bank would require months of work—far more time than they could command. Nevertheless, it is well for directors to make some examination because, like that of a bank examiner, if there is anything wrong they may discover it; besides, the practice of making an examination occasionally may have a restraining influence on those who write up the books, receive and pay money, and keep them more closely in right ways.

A still better course is to have the business of the bank thoroughly examined from time to time by one or two skillful accountants. This course is pursued by some banks and especially by the larger trust companies. It is very common in Great Britain, and the results of the examinations are often given to the public for the purpose of attracting

business. A body of chartered accountants exists in London, men of great skill and merit, who are usually selected to conduct the examinations. Such a body ought to be organized in this country—men of high repute, whose certificate would be accepted by the world as a guaranty of the true condition of the institution examined. With so many moneyed concerns now existing here, such an association would serve a highly useful purpose; while the work of training men might be undertaken by some of our technical institutions, supplemented by experience in examining and auditing the accounts of corporations.

SECTION II.

DISCOUNTING.

A function of the highest importance imposed on directors is in lending the bank's resources. An analysis of these will reveal still more clearly the part that a bank performs in the world of production and exchange, and the intelligence and thoughtfulness that directors should exercise in using the capital and other resources of their bank. Capital* used in production is either fixed or floating. Fixed capital is invested in lands, buildings, machinery, mines, canals, railways and their equipments, telegraphs, etc., all these being used in the creation and distribution of wealth. Floating capital is invested in things produced, whether raw material or articles completed or in process of completion. It also pays for the labor and other service (wages and salaries) necessary to production and to the distribution of products. The processes of production are very numerous and distinct. Each producer, when he has completed his part of these processes, desires to sell his product, realize his profits, and begin again with fresh materials. The quicker he can do this, and the oftener he can repeat it, the greater will be his profit; for, in a normal state of things, each repetition brings a profit. All the floating capital which he requires is enough to enable him to do this easily, and without friction. If each article were sold for cash as soon as completed and no store of raw material had to be kept in excess of immediate wants, the minimum of floating capital would be attained; and if the fairly estimated profit were always realized, the wealth of the producer would be constantly increasing, and his business might either be enlarged or a surplus safely withdrawn for outside uses. But immediate sale of products by the producer, and immediate payment for them by the buyer are practically impossible. A long process of digestion must be gone through with before ultimate payment and the final payer (who is the consumer) are reached; and consequently the producer cannot immediately sell, and the buyer

*This paragraph and the next are reprinted from the former edition, and were written by George Walker.

cannot immediately pay. Markets may be dull, or overstocked, and buyers may be either slow to come forward, or come without ready money. Hence, the producer requires additional floating capital to carry his products till sold; and the buyer requires credit till he can get the means to pay for the property bought by its resale. But a sale on credit is to the producer, so far as the use of capital is concerned, precisely like carrying the property without sale. Till he gets back the value of his production, he must depend on other means to carry on his business. He must find the necessary capital elsewhere, or his production stops till payment by the buyer enables him to start again. But a healthy business cannot stop; it must go on constantly and evenly, if the highest economy is to be attained. Stoppage means idle factories, rusting machinery, unemployed workmen. The friction and loss incident to stopping and starting would eat up a large profit, and would destroy the even current of production upon which stability of prices largely depends. The producer cannot stop; he must from some source, get the money to go on with, and fortunately his business furnishes the basis on which to get it. He must borrow money on the faith of the property sold. He cannot, it is true, pledge the property specifically, for he has sold it and parted with possession, and so, we repeat, he must borrow on the faith and not on the pledge of it. But though he cannot pledge the property itself, he pledges what represents it namely, the written promise of the buyer to pay the price of it at a fixed future date. In mercantile language, he gets the buyer's note or bill discounted, and here comes in the first legitimate function of the bank, a function which underlies all its operations, and is the touchstone of the regularity of its business.

To reduce it to a definition or formula, it may be said that the first and most important function of a bank is, by the use of the capital which it controls, to bridge over the periods of credit which necessarily intervene between production and consumption, in such a manner as to give back to each producer, or middleman, as quickly as possible, the capital invested by him in such products, in order that he may use it over again in new production or new purchases. In this way the interruption of business, which would be a public, as well as a private loss, is avoided. Thus defined, banking is not only one of the most useful, but it is also one of the most safe and healthy of business operations. Its safety lies in the fact that every loan of the character described, is based on property of intrinsic value; and it is the property which, in the last resort, pays all the loans predicated upon it in its progress of transmission from the producer to the consumer. It gathers value as it goes, by the addition of all intervening profits incident to handling and resale, and on final sale the consumer pays the first cost and all those profits added to it. This, of course, is on the supposition that the transactions have been fairly profitable. In the case supposed the property has been the real debtor throughout, and

the real payer of the discounts. It has purchased the paper which was the subject of each discount in succession, and has finally been exchanged with consumer for the cash, which, in effect, pays them all. The several makers of the paper, though debtors in form, are only insurers or guarantors in fact. They pledge their respective property to the payment of the loans; but the primary and generally sufficient pledge is the property for which the notes are given. The wealth of the makers is a necessary margin or guaranty, because the property sold may be destroyed, or the value may fall, or some one of its successive holders may, by misfortune or fraud, divert its proceeds from their legitimate application, namely, payment to the last seller. In a great majority of cases, however, no such contingency happens, and the guaranty is not resorted to. The intervening profits are an additional safeguard, inasmuch as each party, when he sells, ought to receive a larger note than he gave when he bought the goods.

Having described the nature and proper functions of capital entrusted to bank directors, we shall next describe the different ways of disposing of it to lenders, the forms of obligations taken, and the nature of the security accepted. The most common form of obligation is a promissory note. There are two well known kinds, commercial notes and notes given for accommodation. Commercial paper consists of notes made by an individual, firm or corporation, which are usually indorsed by one or more parties before their acceptance and discount. There is, however, much single name paper, as it is termed, discounted by banks in the United States, containing simply the name of the maker. One of the old questions among bankers is whether it is prudent to take paper of this kind, yet it is a common practice among the best banks. Such paper is supposed to be of the first quality, made by firms or individuals or corporations possessing abundant means, who will discharge the same at maturity. Whether it should be taken or not is a matter purely of judgment among bank officers. There is a much larger quantity of such paper made and taken since the accumulation of so much wealth than there was in the earlier days, enough indeed to form the basis of a regular quotation in the mercantile newspapers.

By far the larger quantity of paper contains at least two names, those of the maker and of the indorser. Yet, in fact, there is often only one good name attached to mercantile paper. A bank, for example, may have a large customer, of undoubted standing, engaged in the dry goods business. He constantly presents notes for discount taken by him from his customers in the liquidation of merchandise accounts. His bank discounts it with little or no knowledge of his customers, on the supposition that he knows them and that they have some ability to pay, but chiefly on his own indorsement.

The Bank of France requires three names to paper, but it is said that perhaps it succeeds no better than other banks, not getting more

than one good name out of the three. In other words, at least one of the three is often a person of not much account, but the bank it is supposed knows some one of the number who is able to respond. The Bank of Berlin requires two indorsers to all paper bought or discounted. In theory, the more names the better, but it need hardly be remarked that one good name is better than a large number of poor ones, and that quality rather than the number of names determines the worth of paper.

The characteristics of a promissory note are well understood; it must be dated, contain words of negotiation, the time for payment must be stipulated, also the person to whom it is payable unless payable to the bearer, and it must be signed.

A few words concerning the several parts. First, it must be dated. If this be omitted, as sometimes happens in filling up a blank, the omission can be supplied by proper evidence.

A note should not be made and delivered on Sunday. We do not suppose that many mistakes of this kind happen, yet it is possible for a bank to make a mistake in discounting a note made on that day. If it was thus dated, but was not delivered until the next day, it would be legal, as the validity of a note depends on the time of its delivery and not on the time of its inception. Again, even though a note was made and delivered on Sunday, and the payee could not sue on the note itself to recover the amount, he could throw it aside and sue for the money itself. In other words, he could disregard the actual or express contract, and sue on the contract which the law implies, that a person who receives money under such conditions must return it.

It is usually said that no fixed form of words is needful to make a note negotiable. Any words expressing this intent are sufficient. The words "or order," or "the bearer," have come into general use, and their significance is well understood. If a note contains any clause in addition to those usually written, the question may arise whether the note is invalidated by them. This depends on their nature. If they have the effect of rendering the time of payment or the amount uncertain, they will impair its validity, for one of the fundamental principles of a negotiable note is that the promise must be unconditional, certain, without any contingencies. A clause is often added relating to attorney's fees and costs of collection in the event of nonpayment. Whether it has the effect of impairing the negotiability of a note has been decided both ways. A negative answer has generally been given by Eastern courts, while the Western courts have generally maintained the opposite opinion. In a new law, recently enacted by New York, New Jersey, Connecticut, Florida and Colorado relating to negotiable paper, such a stipulation does not impair their negotiability. A stipulation added to the usual form of note which is not to go into effect until after its maturity does not impair its negotiability. Sometimes a note contains an additional clause relating to exchange, thus:

$1,000.00. ST. LOUIS, Mo., Oct. 1, 1897.

Sixty days after date I promise to pay to the order of John Smith One Thousand Dollars, payable at Mechanics' Bank, with exchange on New York City. Value received.

JOHN JONES.

This means that Jones promises to pay in addition to $1,000 the cost of sending that sum to New York; in other words, the cost of a draft on New York for that amount. To this form there is no objection, because the nature of the promissor's undertaking is well understood.

Sometimes the phrase "in exchange," or "in New York exchange" is used as synonymous with the other. But it does not mean the same thing. It has been contended, when this is incorparated in a note, that the maker has the right to tender a draft on New York in payment. Surely such a draft is New York exchange, just what the maker promised to pay. Again, New York exchange varies in quality, and if a draft may be tendered, can he select the parties to the instrument, or has the payee the sole right to determine what New York exchange shall be accepted? These ambiguities should prevent the use of this form among all who seek to be accurate in their business methods.

Another important principle may be mentioned. If a note is made in one state and payable in another the question often arises, By what law shall its validity be determined? The question is of special importance whenever the rates of interest vary in different states. The general principle is that the validity of a note is to be determined by the place where it is to be executed. If a note is made in New York payable in Philadelphia, its legality must be tested by the laws of Pennsylvania. With respect to the rate of interest that may be exacted, it may be said that generally any rate, lawful either in the state where a note was made or is payable is legal, but wherever this principle does not apply, the rate that may be charged where the note is to be paid is the lawful rate. As the states are modifying or repealing their usury laws this principle is less important than it once was, though even now usury laws in some modified form exist in many states and banks occasionally feel their severity.

Another form of obligation is known as accommodation paper. The difference between this and commercial paper is well understood. Paper of the latter kind grows out of business transactions, the sale of goods or other merchandise. Accommodation paper is made without reference to any particular transaction, to raise money for some future use. One of the peculiarities of such paper is that as between the maker and indorser nothing can be recovered. In making accommodation paper very often an agreement exists between the maker and indorser whereby the proceeds are divided between them; in all cases either the maker or indorser acts for the benefit of the other.

Bills of exchange is the next kind of paper that may be mentioned. In its original form a bill is very unlike a promissory note, but when indorsed and accepted the similarity between the two instruments is very great. The acceptor of the bill of exchange is the primary debtor, like the maker of a promissory note; and the drawer of a bill is the secondary debtor, like the indorser of a promissory note.

Very often bills of exchange are drawn against produce or merchandise consigned for sale. If accompanied by a specific pledge of the property, they are called documentary bills, because the title is authenticated by bills of lading, and protected by policies of insurance, which accompany the paper. The merchandise is sold "for account of whom it may concern," that is to say, for account of the bill holder first, and of the owner of the property afterwards. A very large part of the grain, produce, cotton and tobacco business of this country is transacted by means of documentary bills. They have often little else than the value of the property to depend upon, the drawers and acceptors being only middlemen, or factors of small responsibility. If the property is of a staple character, always salable at a price, and the advances are sufficiently below its value, such bills make very desirable paper, for the reasons already given that they do not depend on the solvency or even the good faith of the parties, the property itself, authenticated by its title deeds, being the real security. Foreign bankers make their profits very largely in buying documentary bills at one rate and selling their own plain bills at a higher rate; but it requires large capital and established credit to make a market for bankers' bills. In recent years the margin of profit has been very small, and the liability incurred in making it is immense, as both the bills purchased and those sold have to bear the banker's signature. Foreign bills are not usually dealt in by American bankers, except in the Southern cities, where cotton and tobacco are often consigned directly to a foreign market. The same is probably true to some extent in the grain-handling cities of the West and in California. It hardly pays to discount foreign bills and send them abroad for collection and remittances of proceeds. To deal profitably in them, a bank must draw exchange, as well as buy it, and the business of drawing is almost exclusively in the hands of private bankers, and of the representatives of European or Canadian banks. It has always been a surprise to many that some of the larger New York banks have never competed for this business. They possess in a high degree the most important qualifications necessary to a good drawer of exchange. They have an adequate known capital, make and publish periodical reports, are examined by official experts, and are conservatively managed by officers and directors conspicuous for their wealth, experience and probity. Some of them have existed for a long time, and have acquired that widespread reputation which is a first requisite in a drawer of foreign bills. Such a participation in foreign business on the part of the incorporated banks would have this

further advantage, that the banking of this country would be thus allied more closely with the banking and financial operations of the rest of the world. At present there is too great ignorance of, and too little regard paid to what is going on in the monetary world abroad. It is not considered a necessary part of an American banker's education to study foreign banking and finance, and, as a consequence, all the profit which the banking business should properly derive from foreign commerce, is turned over to private individuals, largely foreigners, or to the representatives of more sagacious and cosmopolitan institutions. One obstacle to engaging in foreign banking, by the incorporated banks, is the great subdivision of capital, and the smallness of the amount controlled by any one institution.

Drafts drawn on actual merchandise are usually regarded as very desirable paper for a bank to take. It not only has the names of the drawer and drawee, but the additional security of the merchandise specified in the bill of lading as security. A man in Chicago purchases wheat for a merchant living in New York. Having no money to pay for it, he draws a sight draft on the merchant in New York to whom the wheat has been consigned and appends thereto a bill of lading from the transportation company that is to convey it to New York, specifying the amount of wheat that is to be transported and the name of the consignee. Or, the wheat may be in an elevator and a certificate of ownership is given by the elevator company and this is appended to the draft. Fortified with this bill of lading he takes his draft to a bank and calls for the money, and on receiving it pays it over to the seller. The legal title of the wheat is, in law, in the purchaser, but the equitable title, by which is meant the real, just title, is immediately vested in the bank that has furnished him the money to pay for the wheat. Now the wheat starts on its journey eastward. The wheat still remains the property of the bank though it has never been the actual possessor. It could stop the wheat in transit for any good reason. Suppose that before reaching New York the drawee of the draft should fail. The bank could immediately stop the transit of the wheat, store it on its own account, and indeed sell it. Or, if it reached New York the bank could direct that delivery should not be made to the consignee or drawee of the draft, and hold it subject to its own order. If, however, the wheat was delivered to the consignee, the bank's ownership or lien would be gone, and it would have to proceed like any other creditor to get its money advanced on the draft.

Some difficult questions have arisen in collecting drafts accompanied with bills of lading concerning the length of time for which the merchandise thus pledged can be retained. With respect to sight drafts the usage is well understood, the merchandise should not be delivered until they are paid, but when drafts are drawn on time, the usage varies in different states. More generally the merchandise must be surrendered on acceptance of the drafts. The rules given by Daniel,

the eminent author of Negotiable Instruments, are more concise than any other exposition of which we have any knowledge, and are substantially the following: First, The indorsee of a bill of lading attached to a draft which he acquires on the faith and credit of the bill of lading takes it subject to the agreement between the consignor and consignee of the goods. If, therefore, the consignor had the right to withhold the bill of lading until the draft was paid, the bona fide holder of it has the same right.

Second. When there is no special agreement, a bill of lading accompanying a time draft, taken on the security of the goods covered by the bill, is to be surrendered to the drawee of the draft on its acceptance. And the holder cannot retain the bill of lading after the acceptance of the draft unless the shipper of the goods had a similar right.

Third. When a time draft is drawn on a shipment accompanied with a bill of lading, the holder cannot (in the absence of proof of a local usage to the contrary, or of the imminent insolvency of the drawee) require him to accept the draft, except on the delivery of the bill of lading. And when, in consequence of the holder's refusal to deliver the bill, the drawee refuses to accept the draft and it is protested, the protest will be without cause and discharges the drawer.

Fourth. The drawee of a time draft attached to a bill of lading is not entitled to it, or to the property therein described, without accepting or paying the draft in accordance with the terms of the agreement between the shipper who drew the draft and the drawee.

Fifth. A party discounting a draft on the faith of the indorsement of a bill of lading for goods deliverable to order, has the same lien on the goods as he would acquire if they were delivered to him instead of the bill of lading.

Nevertheless, as the courts in the different states do not have the same views concerning a bank's duties in collecting time drafts secured by merchandise, whether it should be given up on their acceptance or not, definite instructions should be demanded before undertaking their collection. By following these, all risks of violating the conflicting laws that now prevail will be avoided.

Sometimes bills of lading are forged, and interesting questions then arise concerning the responsibility of the parties to them. In one of these cases a bill purporting to have been given by the agent of a railway company at Memphis. It was a shipping receipt for cotton. It was proved that it had never been given, and the bank failed to recover of the company.*

Another mode of lending money is by an overdraft. A depositor is permitted to draw on his bank for a larger amount than his deposit. In several states this practice was once forbidden, and made a penal

*For a collection of cases see Bolles on Bank collections, 148, p. 175, and an excellent paper by G. R. Hawes in American Banker, 1899, p. 1883.

offense. Of late years in some sections of the country, especially in the South, it has become a common mode of lending money. Whether it is a proper thing for a bank to do or not depends entirely on the character and circumstances of the depositor. If he is well known and has ample wealth to respond to his order, a bank may be justified in lending money to him in this manner. In the South, where this practice is most common during the autumn, the banks generally have ample security.

A depositor will give security on his cotton and when it is sold pay his overdraft. In the meantime the bank is exacting interest as it would on any other obligation.

The loans thus far described are made on time, or for very short periods. The practice of lending on short time is based on the soundest experience. Banks now rarely lend for a longer period than four months, though they have no hesitation in taking a note that runs for six months at the end of the second month, thus having only four months of life before maturity.

Banks, especially in the larger cities, make call loans, a thing of modern invention. They are usually made to brokers. They are the only persons who can profitably use money in this way, and for speculative purposes. It is true that other people sometimes borrow money on call, but not often. A lower rate generally is paid on such loans than on loans for longer periods. Borrowers are thus favored because of their promise to return the money whenever it is demanded. The banker thinks that by making loans of this kind he really has lent his money and yet has it within his command. He regards this as conservative banking even though he does not get as high rate of interest.

A merchant or manufacturer could not afford to borrow money on these terms. He would fear that the loan might be called without having the means to respond. When he makes a loan for four months or other period he expects to sell goods, or in some way confidently counts on having money to pay his obligation at maturity. Perhaps he is sure that it can be renewed, at least for a part of the amount. Not so operates the broker. If the money borrowed is called, he expects to be able to pay by borrowing on the same securities from another bank. In most cases he can readily do this. Feeling sure of his ground, he does not hesitate to borrow in this manner. His securities are really the key to the situation; these command money.

Nevertheless, experience has often shown that he is unable to repay his obligations. If only a few loans are called, it is easy enough for borrowers to make new loans elsewhere and fulfill their promises; but occasionally many loans are called at the same time, and when this happens, the broker's situation becomes very grave. At such times it is very difficult for borrowers to fulfill their obligations. The lending banks always have collaterals for such loans, consisting of stocks listed on the stock market, and in lending leave a margin for shrinkage in their values of ten per cent. or more to secure themselves against

loss. In the loan contract is a clause providing that, should the borrower fail to fulfill his promise, the bank is authorized to sell his security, whatever it may be, and apply the avails in payment of his indebtedness.

FORM OF STOCK NOTE.

$..... PHILADELPHIA,..... 190

..... after date,.....promise to pay to the order of

.....

....DOLLARS,

without defalcation, for value received; and have delivered with this note, as collateral security,..... ....

....

and do agree, on demand, to deposit with the holders such additional security as they may from time to time require, and in default thereof this note shall instantly become due and payable as though it had actually matured, and upon default of payment at maturity, whether such maturity occurs by expiration of time or default in depositing additional security as above agreed, do hereby authorize and empower the holders hereof for the purpose of liquidation of this note, and all interest and cost thereon, to sell, transfer, and deliver the whole or any part of such security, or any additions thereto, or substitute theretor without any previous demand, advertisement or notice, either at brokers' board or public or private sale, at any time or times thereafter, with the right on the part of such holders to become the purchaser and absolute owner thereof, free of all trusts and claims. And it is further agreed that the securities hereby pledged, together with any that may be pledged hereafter, shall be applicable in like manner to secure the payment of any past or of any future obligations of the undersigned held by the holders of this obligation, and all such securities in their hands shall stand as one general containing collateral security for the whole of said obligations, so that the deficiency on any one shall be made good from the collaterals for the rest, hereby remaining responsible for any deficiency in payment, and waiving any benefit, exemption, or privilege under any law now or hereafter to be in force.

Due..... ....

ANOTHER FORM OF STOCK NOTE.

$..... NEW YORK,.....190....

.....after date for value received,.....promise

to pay to THE .....BANK OF THE CITY OF NEW YORK,

or order, at said bank,.....DOLLARS,

having deposited with said Bank as collateral security for payment of this or any other liability or liabilities of.....to said Bank, due or to become due, or which may be hereafter contracted the following property, viz:

(Description here)

with full power and authority to said Bank to sell, assign and deliver the whole, or any part thereof, or any substitutes therefor, or any additions thereto, at any Brokers' Board, or at any public or private sale, at the option of said Bank, or its President, or Cashier, on the non-performance of this promise, or the non-payment of any of the liabilities above mentioned, or at any time thereafter, without advertisement, or notice, which are hereby expressly waived. And after deducting all costs and expenses for collection, sale and delivery, to apply the residue of the proceeds of such sale or sales, to pay any or all of said liabilities, to said Bank, or its assigns, as its President or Cashier, or assigns, shall deem proper, returning the overplus to the undersigned. And the undersigned agrees to be and remain liable to the holder hereof for any deficiency.

In case of depreciation in the market value of the security hereby pledged, or which may hereafter be pledged for this loan, a payment is to be made on account, so that the said market value shall always be at least.....per cent. more than the amount unpaid of this Note. In case of failure to do so, this Note shall be deemed to be due and payable forthwith, anything hereinbefore expressed to the contrary notwithstanding and the Bank may immediately reimburse itself by sale of the security.

.....

When only a few loans are called it is usually easy enough, if borrowers cannot pay, for a bank to sell their collateral securities and apply the proceeds on their notes; but whenever many loans are called and borrowers are unable to respond, or to borrow the money

of other banks then there is trouble. If the lending banks put their securities on the market and attempt to sell them, the prices immediately fall by virtue of the operation of that most familiar principle, supply and demand. The large sudden supply has the effect always of diminishing their value, and the sum received may be insufficient to pay the loans made on the strength of them. Banks, seeing the danger of a loss, in many cases keep their securities until the return of better times. In other cases there is no alternative, they must sell whatever be the price in order to realize money.

If the securities are kept, they must cut off time loans in order to get a needful supply of funds. Consequently whenever call loans are made to a great amount, the practice results in sacrificing the commercial class to save the brokers, or in sacrificing the brokers through the sudden fall in the value of their securities. Experience therefore has clearly demonstrated that call loans are no safer than any other, and that it is not a wise practice for a bank to lend large amounts in this manner.

No mention has yet been made of the reasons for making these loans. One of the principal reasons is that the larger portion of the money thus lent consists of the reserves of national banks, or that portion which they are permitted by law to keep with the banks in the larger cities. When lying in their vaults at home, of course they cannot be used, and therefore during times of dullness, when there is no possible use of these reserves, they are sent to New York for the purpose of getting the two or more per cent. interest that is allowed for their use. Interest would not be paid by the New York banks if they could not make some use of this reserve money. What can they do with it? Wishing to keep it in hand so as to be able to respond at a short notice to the sending banks, it is lent on call. Our readers can now understand the position of banks that receive and lend such deposits. They always exert themselves to the utmost to return them whenever they are demanded, because they well know that not to do this would mean ruin perhaps to the sending banks. Every bank that holds them is most careful to fulfill this obligation. But, on the other hand, to do so it is often obliged to sacrifice either the commercial class who borrow money from them, or the brokers, as we have explained. There is no escape from grinding either one class or the other between the millstones. The question always is, Which class shall be sacrificed? As the national banking act declares that the banks are organized for commercial purposes, not to feed brokers, it would indeed be well if this practice of making call loans was cut up root and branch; for, as we have seen, it is by no means a safe business, and every year or two results in a monetary panic. This brief analysis of the mode of making call loans, ought to be sufficient to show that, if the practice was discontinued or forbidden by law, unspeakably good results would follow. But there is another way of reaching this end, the practica-

bility of which no one will question, to so change the law as to require every bank to keep its deposits in its own vaults. The country banks might be permitted to reduce them, but whatever might be the legal amount, if they were required to keep them at home, the New York banks would not have them, call loans would be greatly lessened in amount, and the commercial class would not be squeezed to get money either to save the brokers or the lending banks.

Banks also lend on collateral security, bonds, stocks and other obligations. Every now and then when a bank meets with a heavy loss from the non-payment of ordinary mercantile paper, its president or board of managers thinks that, after all, such paper at the best is very insecure; that notwithstanding all inquiries they may make deception is inevitable, and so they conclude that in the future they will take less paper and require more collateral securities for their money. We might describe many an experience of this kind in which some losing bank suddenly determines, for a while at least, to reverse its policy and discount paper largely on the cover of collateral securities. The reason for this change is that the bank is supposed to know more concerning their worth than the worth of the makers and indorsers of paper. It is indeed not an unusual thing to hear some banker say that he cannot be fooled in taking collateral securities of stocks and bonds that are listed on the market and command a ready sale.

Experience is the infallible test in such matters, and this has again and again shown that bankers who proceeded on this principle were mistaken. In describing the difficulties and dangers in making call loans, we remarked that whenever there was an unexpected supply of bonds or stocks for sale the market for them declined in obedience to the general operation of the law of supply and demand. The situation at such times is intensified by the fact that many who would be very willing to purchase if they had the money are unable to get it, either because the banks which keep their deposits cannot pay, or are unwilling, if loans are desired, to lend to them. Consequently, those who possess means or credit and would purchase at such times are unable to do so, and their inability to purchase renders the situation still worse, and unfavorably affects the values of securities offered for sale. So experience proves that, in the long run, the values of collateral securities fluctuate very widely, and the proofs of this can readily be found in the record of prices of stocks and bonds. A bank therefore that determines to do such business rather than trust to the credit of individuals is sure to be a loser in the end. Doubtless many a loan is made to a person possessing ample credit outside his collaterals offered for security; and the plain teaching of experience is that a bank, so far as possible, should divide its loans between commercial paper and other paper secured by collaterals. To combine both credit and collaterals is an ideal security. Furthermore, it is a good policy in banking as well as in insurance to divide loans into smaller amounts

rather than to intrust very large sums to the credit and disposition of a few individuals. In many of the bank failures of recent years a large portion of their resources had been loaned to a ring or even to a single individual. Failures have been far more frequent among banks of this class than among those with loans scattered among many borrowers. Prudence clearly dictates that this principle should be followed in lending the money of a bank.

Indeed, depositors and business men of all kinds would do well to give a bank a wide berth that is organized by one man or a few men for a special purpose, and who absorb most of its resources. It may be that this intention is not known in the beginning. They may succeed in covering up their designs for a time, but no bank that uses its resources for the benefit of a few can long keep the secret. Persons apply for discounts, and are refused, they are prone to inquire into the reason, and learn that others have taken the money, but who? The real borrowers are found out, and when they are, depositors should keep away from such an institution, for several excellent reasons: First, they cannot be accommodated, which is one of the reasons for making deposits. When a bank diverts the money of depositors into a few channels of course there is not much left for others. Secondly, depositors should keep away because there is greater danger that such a bank will fail than one in which neither the president nor directors are engaged in any large outside enterprises absorbing the bank's money. A failure occurred a few months ago in Michigan of a bank having $225,000.00 of deposits. Of this sum, however, the president had borrowed $180,000.00. It is true that he had violated the national banking law in conducting the bank, but it was another case in which the board of directors had been kept in profound ignorance of his operations. He was the president of a large manufacturing concern, and had employed most of the money of the bank in sustaining it. When he failed, the bank was obliged to close its doors. As he endeavored to keep his concern afloat as long as possible, the failure in the end was very complete, and the depositors were unable to save hardly anything from the wreck.

The principal New York city banks have the stock exchange telegraph quotations in their banking rooms. and therefore are promptly informed concerning the current fluctuations of the market. On such securities, loans are made usually within ten or fifteen per cent. of the market value. The fluctuations in these stocks thus pledged are carefully watched by a person in the bank, especially appointed for that purpose. It is his duty to demand either more security, or the payment of a part of a loan, in the event of a decline in the value of the security pledged therefor.

In some states, though the rule is not uniform, the law requires that for a collateral to be good security when delivered to the bank,

stock must be actually transferred on the books of the company which first issued the same.

A national bank is forbidden to lend money on real estate. It can, however, take it afterward to secure a loan and escape loss. It has sometimes been questioned whether banks do not practically violate the law that lend without taking any security in the beginning, and soon afterward obtain a mortgage on the maker's real estate. The difficulty in procuring proof of the true nature of the transaction is apparent, but the law might be changed and every transaction of the kind be regarded as a violation until it was satisfactorily explained.

By the national banking law a bank is also forbidden to take its stock as collateral security. In the olden times this was a favorite method of borrowing. Banks were organized as we have already shown without any real capital. It is said, however, that this principle of the law can be evaded by borrowing of another bank and giving the stock as security. In Canada, the law prohibiting loans on bank stock is evaded in three ways. An intermediary is used to effect the evasion. He is an individual trustee, an old established company, or a company formed for the purpose. A writer has remarked that it may be a question whether these forms of evasion are less objectionable than the direct method. They all purport to offer security to the bank. "The security of an individual is likely to be weakest, inasmuch as individual capital is weaker than associated capital. There may be no real intention of holding an individual intermediary to any accountability in the transaction, and as he is really the agent of the bank, there is no reason to suppose that there is any such intention. The value of the intervention of the company depends on its capital and its strength, and whether it is merely used as a convenience or is intended to be held accountable for any loss that may occur. In no other way does this detour modify the transaction. The ground fact that the bank really advances the loan, remains, and in that fact are summed up all the objections to the loan by banks on the pledge of bank stock."

Besides loans made on stock and bond collaterals, are others on property consigned for sale, but withheld from market for a better price. Such withholding is, of course, speculative, and the loans are more or less tainted with that quality. They are not always to be condemned, but they should be made with great caution, and not relied upon to meet the bank's immediate liabilities. Enough available means should always be held in cash, and in perfectly reliable short paper, certain to be paid at maturity, to cover circulation and deposits. Capital and surplus, when not absorbed in government bonds (as is largely the case with that of the national banks), may be lent on longer and less convertible security. Convertibility, however, is the first requisite in the collaterals to a loan.

The moment such collaterals are inadequate to protect the loan by a forced sale, the debt becomes unsafe. The objection to loans on

property not sold, or consigned for sale, is that they have no natural maturity, and however ample the collaterals, they are essentially accommodation loans, and have often to be inconveniently prolonged. The test of soundness in a bank is the speed with which it could liquidate, and return its capital to stockholders.

Commonest among objectionable loans are those on personal security, and accommodation paper without collaterals; such as is not the outgrowth of any business transaction, out of the completion and fruition of which the means of payment will be derived. Loans made for the purchase or improvement of real estate, whether productive or speculative; loans to provide quick capital for corporations, or for individual business are not only very objectionable, but unfortunately also very common. However strongly fortified by names, they are always reluctantly paid, and often the cause of anxiety and trouble. It is entirely outside of the province of legitimate banking to furnish money for such purposes. Investments should be the result of savings, and it is very unwise, either for an individual to anticipate his savings by loans at short maturity, or for a bank to help him to do so. So of quick capital. We have shown that all business requires it, and it should be greater or less according to the business. It is the margin which protects from disaster, and guarantees success. It is no part of a bank's business to lend that margin. By so doing, it takes on itself the risk which belongs to the customer, and which is the strongest incentive to prudence. Its duty to him, and its proper relation to his business, begin and end with turning his products into cash, as soon as they are sold—converting his credit sales into cash sales, and thus reducing the necesary amount of his floating capital or margin, without assuming to provide that margin.

SECTION 3.

DISCOUNTING CONTINUED.—STATEMENTS.

Such are the different forms of obligation taken and securities accepted by banks when lending money. A question of no slight importance relates to the different classes to whom money shall be loaned. What classes of applicants are entitled to the most, and what classes to the least consideration? First, a bank should put at the top of the list the depositors who keep the largest regular balances; in other words, its best customers. Little need be said in explanation of a principle, the wisdom of which is so obvious. As the prosperity of a bank is dependent on retaining its best customers, it knows enough to reciprocate by lending to them most freely.

If they do not absorb all the funds of a bank, then borrowers keeping less valuable accounts are to be considered. As they are a less important class compared with the other, they must be refused, if any are, instead of members of the other.

The amount that should be lent to any applicant of course cannot be determined by any rule or principle. The national banking law prescribes a maximum amount that can be lent to any person, ten per cent. of the capital of a bank. This provision has been wisely adopted by many of the states since the adoption of the national banking law. This, however, does not mean that a customer of a bank cannot get loans from a bank of more than ten per cent. of its capital. There is no restriction on the amount that may be loaned to a man on paper made by different persons that may, or may not be indorsed by the applicant. Thus, a merchant having a very large business may have notes constantly given to him in settlement for bills of merchandise. These may be discounted by a bank without the slightest reference to the ten per cent. rule above mentioned. It is questionable whether this provision of the law ought not to be changed, for, in one case at least, it was grossly abused, all the capital of a bank and more besides was loaned to the president and two directors, engaged in a joint speculation, on paper made by their clerks and friends and discounted by the bank. In this way they succeeded in wrecking the association without technically violating the law.

Some banks have a rule or custom fixing the line of discount to their directors and to well known customers, $10,000.00, $25,000.00, or more, as the case may be. In such cases the borrowers are supposed to possess ample means, but when the gilt-edged class is passed it is difficult to fix the limit to loans granted to others who are less responsible. Some banks make a rule of lending depositors who wish to borrow in proportion to the amount of their average balances. For example, a dealer whose general average balance is $15,000.00 would be entitled to accommodation five times greater than a dealer with an average balance of $3,000.00. Hence a correctly kept Average Book is an important guide in granting discounts. But this rule from the varying circumstances of customers cannot always be observed. Good banking requires a bank to be in a condition to meet every dealer's reasonable needs in proportion to his balances, irrespective of the current condition of the money market.

Prudence requires banks to lend to their customers less at some times than at others. It may be that a loan is most needed when a bank would be least justified in granting it. Thus, during a time of depression, when one's business is shrinking, customers failing and profits smaller than ever, the question always becomes a very serious one with the bank. Shall we continue to grant our usual accommodation to our customers? To diminish the amount at such a time may seriously cripple him; to grant it is to incur a risk that would not be undertaken for a moment for a new customer.

Of late years much has been heard concerning a lack of money in some quarters. Rightly considered money was never so plenty as during this long period of depression. Yet there has been trouble in

getting it, and why? Because with shrinking business producers could not sell their merchandise or grain, or not at the old figures, for there were no purchasers willing to pay as much. In one sense it is true that producers were without money and could not get it; they could not for the reason that they had nothing to sell that was marketable. If they had had, they would have been just as readily accommodated as at any other time. Banks were afraid to lend to them, because they distrusted not their good intention, but their ability to pay.

What a bank should do on such occasions cannot possibly be foretold by any person. It must seriously consider the condition of the borrower, his probable ability to pay and also the effect of denying him his usual accommodations. A bank should be, and doubtless is slow to sacrifice a borrower whenever it is believed that by prudent management he can weather the storm and pay his obligations. It is true that the practice of banks is very different in this regard. Some are cold-blooded and do not hesitate to cut a customer off and strand him, when he could be saved by granting fresh assistance. Sometimes a bank, unable to secure its loans, or to obtain payment of them, lends still more, hoping by such a course to avert loss in the end. An old customer who has always paid his loans and who expects his usual accommodations to be continued should be treated most considerately during any crisis in his affairs. A bank should not lightly cut him off and suffer him to perish. In one sense, a bank is a partner with every person to whom it lends its money, and having once established this relation, it should be slow, without a good reason, to discontinue it should the borrower be likely to suffer from the dissolution.

And thus we are brought to the heart of the most important thing in lending money, namely, that the relation between borrower and lender should be one of trust and confidence, the applicant making a full and truthful statement of his affairs, or whenever it is desired, and expecting, if this relation is once created, that it will be continued so long as assistance is desired and his affairs warrant its continuance and the bank has the means to lend. This is often not the relation existing to-day, and the lack of its existence surrounds the lending of money by banking institutions with more uncertainty than at any former period. Not until this trustful relation, growing out of a correct knowledge of a borrower's condition, is established, will the lending of money be other than a hazardous undertaking. Therefore, if a borrower expects his bank to stand by him, he should ever remember as the indispensable condition of doing so, a full and truthful disclosure of his business to his bank whenever required. Toward this goal both banks and their customers should move, assured that by creating and preserving this trustful relationship, founded on truthfulness, both will be great gainers.

The remarks of Mr. George Rae, justly eminent for his excellent work, The Country Banker, the fruit of his long and successful experi-

ence as a banker, should be read over and over by every bank borrower. For of this he may be assured, that not until he is willing to treat his banker honestly, and disclose his business fully to him, his methods, plans and expectations, should he expect that much interest will be taken in his success, for he remains until he does thus treat him, by virtue of his own choice, an unknown, shadowy figure flitting in and out for accommodations. How can he reasonably expect his bank to be much interested in his affairs, so long as they are not known, or come to his rescue on the unwelcome discovery that he is nearing the breakers.

"The solid man of business," says Mr. Rae, "who from pride or prejudice, hesitates to disclose the position of his business affairs to the confidential ears of his bankers, damnifies himself in two ways: on the one hand, he lessens the full measure of credit which he might obtain from them should he ever desire to borrow; on the other, he fails to furnish them with data whereon to speak of his position, with knowledge and decision, in reply to enquiries from without. A man lays bare the secrets of his constitution with candor to his physician, lest in the absence of an exact knowledge of the case, inapt remedies might be applied. For a like reason, a man should be equally frank with his banker; otherwise, in the absence of a complete knowledge of his position, you may ply him with stimulants, when purging would be better; or bleed him to commercial death, when a timely stimulant might save his existence.

"There are those, no doubt, who have potential reasons for keeping the condition of their affairs a sealed book from their bankers; but it would be unsafe nevertheless to assume, in every case, that because a man refuses to show you his balance-sheet, he is therefore in a bad way. There are people of secretive habits, who would regard with dread the possibility of even their bankers getting to know, not how poor, but how rich they are. But the persons who take this peculiar view of things are few in number. Men in large and active business, and requiring at times large banking facilities, see the wisdom of laying of their own accord their actual position before their bankers, and having a friendly talk over the figures. Every man should know that by this course he secures to himself in times of pressure and panic a large measure of help, should he require it, than if his capital, however ample it might be, were still unknown quantity to his bankers.

"If it is asked on what ground we claim for banks this intimate and exceptional knowledge of other people's affairs, it might be sufficient to reply that we make no exclusive claim to the information. We seek it for ourselves, it is true, but we have no desire that it should be withheld from everybody else, nor from a single person who has a right to know it. The information thus acquired you have constantly to impart in confidence to other banks, for the guidance of their customers and themselves. A banker's opinion of people, in business or

out of it, is in daily and universal request throughout the land; and as the reliance placed upon that opinion is well-nigh absolute, it had needs be sound. It is always as sound as the banker can make it, but not always as reliable as he could wish it to be."

In the absence of such a relationship, what can a bank do in the way of acquiring a more accurate knowledge of the condition of lenders? How can it find out what a borrower is really worth? the nature and profits of his business? his ability and honesty? and his prospects viewed with relation to competitors and his surroundings generally? A correct answer to these questions would be of great worth to any banker.

At the outset, the persons who apply for money may be divided into two classes, those whose ability and wealth, etc., are well known and concerning whom no questions are ever asked. A bank is always willing to lend to them on the most favorable terms. The second class are the persons concerning whom more information is desired than is often obtained. How can a bank proceed in getting information concerning them? First, it is proper that a bank should request a statement in detail of the affairs of a borrower—the amount of his wealth, how it is invested, how much he owes and who are the lenders. It is true that a statement is often not requested, partly because of the difficulty in making it, and partly because banks are so eager to lend money that they do not take this precaution. The experience of banks in lending should teach them by this time that they ought to make more careful inquiry than they have done into the matters above mentioned. One way of solving this problem is to lend on collaterals, but experience proves that banks are no safer which attempt to do that kind of business than those which lend on personal credit.

To return to our discussion of requiring a statement. Is not the request for such information proper, and ought not a borrower to furnish it? If banks generally requested their borrowers to furnish it, they would soon come to regard it as perfectly reasonable and be prepared. And why should they not? A bank becomes, as we have remarked, a kind of partner with its borrower, and therefore it ought to know about his business, his ability, his indebtedness and his profits. Surely no man would think of entering into partnership with another without making inquiries of this nature. Of course, if a bank is willing to lend without making inquiries, borrowers will not be inclined to advance such information; but this should not be. Banks should insist on having this as a prerequisite, and in great detail. Furthermore, the law, if not sufficiently clear, ought to be made so, and any departure from the truth in such a statement should be regarded as a fraud and criminal offense. Sometimes such statements have been required under oath, and whenever they are thus made, the makers can be held clearly for fraud if in fact they were fraudulently prepared

and with the intention of deceiving those who took them and acted on them.

It might be difficult to prepare a statement showing in detail the nature and profits of one's business, but an applicant for a loan should remember the risk that a bank takes and seek to comply with the request. Concerning his ability, a bank would be obliged to depend on other sources rather than on the applicant himself for an answer, except as a disclosure of his business furnished proof of his capacity and honesty in conducting it.

Suppose, for example, that a bank should insist, among other things, on knowing the amount of money borrowed by the applicant and the names of the lenders? He might say in reply that he had outstanding a given amount of paper, but did not know who the holders were, and this might be a correct answer. On the other hand, if the practice of making such statements became general, and he knew that it would be asked, he would take more pains to retain a knowledge of the ownership of his paper and thus be able to answer it. Now the importance of this inquiry will be manifest from the further consideration, that banks ought to co-operate in verifying statements and of learning whether they are true. Various plans have been suggested of bank co-operation in lending money. One of the most experienced bank presidents in this country once suggested the keeping of a register at the clearing house of every city in which the banks should record the names and amounts of paper discounted by them. The objection to this practice is obvious, that banks would not always do this, and so it might be the means of deceiving, as well as of giving light. If banks were to do this generally and conscientiously, it would furnish a valuable source of information; and even if they did, it would by no means tell the whole story, for borrowers might make loans in other cities, or among individuals, that would never come to light in any register or book kept for that purpose.

Notwithstanding these objections to any plan of co-operation, it is evident that banks can do much by action among themselves that may be wholly unknown to the outside world. There are many banks that have the utmost confidence in each other, and if they adopted the practice of making inquiries they might learn much. Suppose an applicant should make a statement to the Arctic National Bank of New York, for example, that he had $50,000.00 of paper outstanding, consisting of ten notes of $5,000.00 each, and that were held by banks in various specified places. Suppose the Arctic Bank, without saying anything to him concerning its purpose, should write to those banks and find out whether his statement were true, or still further, suppose they were requested to inquire of other banks whether they held any paper made by this applicant. If this practice were adopted, borrowers not knowing how many banks were thus associated or how far their relations extended, and knowing also of the danger to their credit of making wrong statements, would be less inclined to deceive those to whom

applications for money were made. It is true they might borrow from sources that were never likely to be disclosed, of their brothers and sisters and other individuals, but we think our remark will be understoood that it is feasible enough for banks to adopt such a practice, and the more general it became, the more completely would applicants be cut off from their old fashioned methods of deception. Would it not be a comparatively easy thing for a bank to establish such a relation with many of its correspondents; to have lists of the paper discounted by a bank in Chicago or persons living in New York sent regularly to its corresponding bank in that city? In like manner the New York bank could send to its Chicago correspondent a list of paper held by it made by persons living in Chicago. Again, some if not all the banks in Chicago might, as occasion required, make inquiries of each other and determine to whom they would lend, and in this way greatly assist each other.

But it will be said that competition, rivalry, distrust, would forbid banks from doing these things. To some degree this objection is true. Banks must judge for themselves which of their number they can trust, whether they are likely to be deceived or not by putting the system in operation. Nevertheless, the suggestion is worthy of consideration, and might prove helpful to banks in lessening the losses that are now so common and so greatly diminish their profits. There are two reasons that work against the practice of making requests for statements, the abundance of loanable capital held by the banks and by borrowers themselves. The great increase in deposits and in shareholder's capital stimulates competition among lenders to put out their resources, and to that end to make fewer inquiries of borrowers. If it had the effect of lessening the rate of interest, no harm would be done, but the consequences are calamitous when capital becomes so abundant that it is lent carelessly on insufficient security, to illegitimate speculations; in short, in other ways than in production and exchange, without making proper inquiry into the ability of borrowers to repay.

Concerning the form of the statement, no form can be prepared that will serve in all cases. We append a form used by the Fourth National Bank of New York.

SHORT FORM OF STATEMENT FOR A FIRM ASKING CREDIT.

To the FOURTH NATIONAL BANK, of the City of New York.

Firm Name..... Business.....

Address .....

For the purpose of procuring credit with the above bank for our negotiable paper, we furnish the following as being a fair and accurate statement of our financial condition on the.....day of.....190

SHORT FORM OF STATEMENT—Continued.

ASSETS.				LIABILITIES.			
Cash				Bills payable for Mdse			
Bills Receivable, Good				Bills payable to banks			
Accounts Receivable, Good				Open Accounts			
Merchandise (How valued)				Loans or Deposits			
Real Estate in name of Firm				Mtgs. or liens on real estate			
Machinery and Fixtures				Other indebtedn'ss and of what composed.			
Other assets and of what composed.							
Total				Total Liabilities			
				Net Worth			
				Total			

State last date of taking trial balance proof .....
Regular time of balancing books .....

Names of all General Partners. .....

Names of Special Partners with amounts contributed by each and until when. .....

Memorandum .....

Please Sign here .....

By .....

THE FOLLOWING IS A MORE DETAILED FORM OF STATEMENT:

To the ..... Bank of .....
Corporate or Firm Name .....
Location .....
Business .....
Branches, if any .....
For the purpose of procuring credit with the above bank for our negotiable paper, we furnish the following statement of our financial condition on the ..... day of ..... , 190 ....
The Trial Balance of our books is as follows:

ASSETS.			LIABILITIES.		
Cash on hand and in bank			Capital ..... $		
Bills receivable			Surplus, or Profit and Loss ..... $		
Accounts receivable			Bills payable, for merchandise ..... $		
Merchandise in hands of Consignees ..... $			Bills payable to own banks ..... $		
Merchandise finished, on hand ..... $			Bills payable for paper sold ..... $		
(how valued)			Open Accounts		
Merchandise unfinished, on hand ..... $			Loans or Deposits		
(how valued)			Bonded Debt. (Date of Maturity,)		
Raw Material			Mortgages or Liens on Real Estate		
Real Estate in name of Co. or Firm			Chattel Mortgages		
(Cost of above, $			Other Liabilities (state in detail.)		
Present market value, $)					
Machinery and Fixtures (not included in Real Estate)					
Office Furniture and Fixtures (not included in Real Estate)					
Other Assets (state in detail.)					
Specify any of above Assets pledged as collateral.			Specify any of above Liabilities secured by collateral.		

Capital and Surplus, as shown by Trial Balance.....$
Add Interest due Co. or Firm.....$
Other Assets, not included in Trial Balance (state in detail.)

Deduct, Salaries due and accrued, Labor, Rent, &c. (estimated).....$
Interest on Bonded Debt (due and accrued).....$
" due, other than above.....$
Bills or Accounts Receivable considered doubtful....$
Other Liabilities, not included in Trial Balance (state in detail).....$

Balance Net Assets over Liabilities.....$

Contingent Liability { Accommodation Endorsements.....$ / Endorsed Bills Receivable Outstanding.....$

For Corporations.

Capital. { Authorized.....$ / Subscribed.....$ / Paid in.....$ (as per Trial balance.)

Held by Co. as Treasury Stock..$
How paid in:
Cash.....$
Other property.....$
Description of above property and how valued.....
Incorporated in what State and under what General Law or Special Act....
Date of Charter.....
Commenced Business.....

Officers. *Address.*
Pres.....
Vice-Pres.....
Sec'y.....
Treas.....
Directors.
.....
.....
.....
.....

Are Stockholders liable beyond amount subscribed?
.....
Rate per cent. and amount of dividends paid during preceding year.
.....

For Firms.

Individual worth of respective partners outside the business.

Names *in full* of all General partners

Names *in full* of Special Partners with amounts contributed by each and until when.

Connection of each partner in other business, if any.

Time present firm has been in business.

Succeeded the firm of.....

Amount withdrawn by Partners during preceding year.

Amount of annual sales.....
Amount of annual expenses.....
Amount of Accounts and Bills Receivable past due.....
extended or renewed, if any.....
Insurance carried on Merchandise, $.....On Real Estate, $.....
Amount and maturity of largest indebtedness during present year (exclusive of bonded indebtedness of Corporation.).....
Was last inventory, Actual, if so, by whom taken and date;.....
if Estimate, by whom made and date?.....
Regular times of taking inventory.....
Regular times of balancing books.....
Object for which proceeds of our paper is wanted.....
(Sign Company or Firm Name).....
By.....
Dated.....

ENDORSEMENT.

No..... Statement of ..... of .....

Remarks.

Discount Committee.

When one considers that the prosperity of a bank depends more on safely lending its resources than anything else, excessive care can hardly be taken in digging down to the bottom of the real or imaginary resources of borrowers. A banker has thus well expressed the most important facts that ought to appear in such a statement:

(a) Is the capital sufficient, and has it been contributed in cash; if not, what does it represent?

(b) Who constitute the firm, and do the partners understand the business?

(c) Has the stock been taken in at a fair figure, and has due allowance been made for depreciation? This is very necessary to ascertain in large manufacturing concerns.

(d) What about accounts and bills receivable? Has due allowance been made for doubtful credits, and have all bad debts been either written off or provided for?

(e) The liabilities of the firm should be carefully examined; are they heavy; are they continuously large; to whom and what for?

These are some of the leading questions which naturally present themselves, but in addition a banker should ascertain:

The habits of the partners—are they careful borrowers? Do they borrow for legitimate purposes only, and in what proportion? What is their style of living, extravagant or otherwise? Have they been carefully increasing the amount at risk of the business, or have they been withdrawing largely for other purposes, thus keeping up the necessity for borrowing?

Remember that assets are generally susceptible of reduction, and in case of insolvency rarely realize in full, while liabilities never scale down.

That when an account is sought to be transferred from one bank to another, it is always well for the officers of the institution to which it is offered, to ascertain definitely why it leaves the other bank.

And that banks do not exist for supplying permanent capital.

In the case of endorsed "bills receivable" being offered, a careful scrutiny of the names is invariably desirable, not only in the interests of the bank itself, but in those of the customer. It is sometimes difficult, but always necessary to trace renewals. The devices for hiding such are many and devious, still they can be traced and when traced should be immediately brought under the notice of the endorser; if repeated frequently, better decline them. Courteously warn your customer that "locks up" (only another word for frequent renewals) as a rule ultimately mean "bad debts."

The regular meetings of boards of directors in most banks are held twice a week, but in some banks meetings are held daily. The mode of discounting paper varies much in different banking institutions. In many of them, especially in the larger cities, the business head, whether he be the president, vice-president or cashier, passes on the paper

as soon as it is offered for discount. Customers cannot wait, money is wanted, and they are speedily told whether they can be accommodated or not. But with the country banks a different custom prevails. The paper is offered for discount and is put before the directors, and they decide whether to accept or to decline it. The president of a very profitable bank in New York City once said to the writer, that after his bank had been in existence for ten years it had lost only three pieces of paper, and these were discounted by the board during his absence. He loaned the money, and the directors at their meetings merely ratified the loans made. A board is a very convenient body for referring paper which an officer is unwilling to accept. He does not wish to offend the offerer by declining to discount it, and so it is referred to the board for their action. This is the least offensive way of telling a man that he cannot be accommodated. Of course, many cases are referred to the board for their action which may be decided favorably. The amounts may be very large, or there may be something peculiar about the loans, a longer time than is usually granted perhaps may be wanted, and the cashier or president may not wish to assume the sole responsibility. When banks hold daily meetings the directors decide what paper shall be discounted.

In order to have a correct knowledge of dealers' accounts, the cashier has on his desk a book which contains a record of the average daily balance of every dealer. This is made up at the end of each month, and the average for the month is entered in the average book. At the end of the year the average for twelve months is struck, and usually the average book is so ruled as to show the daily average for five or ten years previously. The average book is indexed throughout on the margin, with as many leaves as are required for each letter. The names of national banks are usually entered first, alphabetically, then state banks, then bankers, and then the individual depositors from A to Z. Usually there is a new average book for each year.

At directors' meetings the president is seated at the head of the table, and the cashier occupies a convenient seat near him. In some banks the directors have particular chairs, in others no order of arrangement is observed. The cashier reads the minutes of the previous meeting of the board, and after their approval the board proceeds to other business. The cashier records the names of the directors present, as this fact is worth preserving. The business transacted since the last meeting, as previously stated, consisting of the discounting of paper on the responsibility of the bank manager, is submitted for ratification. Banking institutions are not always so particular as they ought to be in doing this, or in examining the paper taken.

When the wrong practices of Eno, the president of the Second National Bank of New York, were discovered, it was found that not only did he discount paper on his sole responsibility, but kept it in a vault down town, not belonging to the bank, and the directors never saw it.

They accepted his statement of what he did as true, and never troubled themselves to look at the paper discounted. Had this been done, Eno would have been obliged to resort to some other artifice to conceal his fraud; or, what is quite probable, could not have gone so far as he did, without exciting suspicion leading to his detection.

Vigilance is the price of prosperity, and this applies more emphatically to banking than to almost any other kind of business. No bank

DAILY STATEMENT. 190

	Monday.	*Tuesday*	*Wed.*
Bills Discounted			
Temporary loans			
U. S. Bonds with Treasurer to secure circulation			
" "			
Other Stocks and Bonds and Mortgages			
N. Y. Clearing-House Association Bonds			
Sundry securities			
Total loans			
Legal-tender notes			
Specie—Gold certificates			
" Clearing-House certificates			
" coin			
Silver coin			
Arctic National bank notes			
Notes of other National banks			
Exchanges for Clearing-House			
Total cash			
Expenses			
Interest			
Premiums			
Taxes paid			
Exchange			
Total expenses, &c			
Real Estate, banking house			
Other Real Estate			
Deposit with U. S. Treasurer, 5 per cent. fund			
Due from U. S. Treasurer, Redemption Agent			
Due from banks			
Total footings			
Memoranda—Legal-tender notes			
Specie			
5 per cent. fund and redemptions			
Total reserve			
Reserve required			

manager, however long and ably he may have served a bank, ought to be permitted to conduct its affairs without supervision. Directors who do not direct occupy a false position toward the public, the depositors, the stockholders and the bank manager. The welfare of the several classes concerned in the institution demand that these officials should not neglect their duties.

Before proceeding to discount paper, it is necessary to know what resources a bank has available for that purpose. This information is

contained in a statement from the general ledger. The following form is copied from the daily statement book of a bank in New York City:

ARCTIC NATIONAL BANK OF THE CITY OF NEW YORK.

	Monday.	*Tuesday.*	*Wed.*
Capital stock			
Surplus fund			
Profit and loss			
Discount			
Interest			
Exchange			
Rents collected			
Total profits			
National circulation outstanding			
Dividends unpaid			
Individual deposits A to —			
" " — to —			
" " — to Z			
Certified checks			
Total individual deposits			
Banks and bankers' deposits A to —			
" " " — to —			
" " " — to Z			
Afternoon mail			
Total banks and bankers' deposits			
Total footings			
Memoranda—Gross deposits (*Daily*) Net deposits			
Weekly average—Loans and discounts			
Specie			
(*Reported Saturdays to Clearing-House.*) Legal-tender notes			
Deposits			
Circulation			

The items are read, or the principal ones, and afterward the offerings, consisting of notes on which the owners are desirous of obtaining money of the bank. Instead, however, of reading these, a record, previously made in a book called an offering book, is read to the directors. In this book the names of the offerers are recorded alphabetically, the amount of each note, the time it is to run, the name of the indorser, where payable, and any other particulars relating to it. In small banks the notes offered are read without regard to alphabetical order.

If the amount of offerings exceeds the amount of loanable funds of course not all can be accommodated, even if their notes be desirable. But rarely does it happen when any considerable amount of paper is offered that it possesses a uniform value. Some makers or endorsers

are better known, and are preferred to others. What, therefore, happens, is to select from the entire amount offered the most desirable offerings, and to decline the remainder. Yet, often the entire amount offered is not enough to absorb all the loanable funds. Then the bank must look elsewhere to find a way for employing its resources. One way is to buy paper, though in buying it the board may pass on the transaction the same as would be done if offered in the usual way for discount. This business of buying paper is worth a brief explanation.*

It is purchased by a bank of a note-broker. But where does he get such paper to sell? Of merchants. Formerly they gave notes only for the merchandise they bought, but in recent times they give notes without reference to the purchase of any special merchandise, in order with the money thus obtained to discount their bills.

Once when notes were for a longer period, and notes were almost universally given for purchases, they were generally drawn to the maker's order, and read for value received "from A B & Co.," or whoever the seller might be. Indeed, some houses were so careful lest the paper might be thought to be made paper that they inserted the name of the seller of the merchandise in full. This paper was sold largely in the "street" to banks and others, who bought it with confidence because it represented an actual business transaction. It suited commission houses and importers, because if not willing to hold the paper

*"Of late years," the Boston Commercial Bulletin has remarked, "the practice has arisen among merchants of drawing notes payable to their own order and selling them through brokers to banks or other lenders in the open market. The practice has been encouraged in two ways: first, because sellers of nearly all kinds of staple merchandise offer large discounts for cash, and the buyer who sells his note for money and then pays the money for the merchandise, gets the benefit of these discounts; and second, because a large number of note-brokers are constantly going about among the merchants and urging them to make such paper for sale.

"When a merchant secures his funds by discounting merchandise notes at one or more banks at which he keeps regular accounts, the banks thus have an accurate method of determining the amount of paper in the market bearing his signature or endorsement, and whether it is safe to accept any more of it. But the commercial paper which is sold in the open market becomes so scattered that nobody but the maker knows how much of it is in existence at any one time. Cases have occurred in which young men began business with small capital, and being encouraged to increase their operations by making single-name notes and selling them through brokers, have thus established a credit utterly disproportionate to their means. The mere fact that their notes have become known in financial circles often adds to their credit and enables them to give more notes. Originally the theory was that money obtained in this way was to be devoted to the purchase of merchandise; but the facility with which some merchants have found themselves able to sell their unendorsed paper has too frequently led them to make such notes for other purposes, even for speculating in stocks or for transactions widely separated from their legitimate business."

until maturity, they could realize upon it without the responsibility of endorsing it, and thus go on and sell to a house (whatever their own private opinion of its soundness might be) so long as the paper would sell at a rate of discount not interfering too much with the profit on the goods or the rate of commission. This, of course, was legitimate dealing, representing actual merchandise transactions. So, indeed, is the making and openly selling of one's paper in the market, and the using of the proceeds in "cashing" bills, legitimate, but it is dangerous and liable to abuses. Funds so obtained can be used for any purpose, and the developments in some recent failures have shown that the money was often used for operations entirely outside of the regular business of the maker, or for purely speculative purposes.

As merchants often sell their paper at six or seven per cent. interest, and discount their own bills at seven to nine per cent., of course they make two or three per cent. by borrowing the money for thus paying their bills in advance of their maturity. The broker gets a commission for negotiating the merchants' paper, which must be deducted from the profit of the transaction. After deducting this brokerage, however, there is a considerable profit from borrowing money as just described, and the business has become a very large one.

In some parts of the country, Hartford, Conn., for example, the banking capital is much larger than can be profitably employed locally. Providence is another place of the kind. The banks of those cities consequently invest large sums through note-brokers.

The following is the method of conducting the business in the largest cities. A printed or lithographed list of notes is sent to a bank. It may contain a description of a hundred pieces of paper and is marked, "This is for bankers' use only." Each piece is numbered. If a bank wishes to see any of the pieces therein described, they are sent on application. There is another way, however, of negotiating such paper, which may be explained here. If a note-broker were selling all the paper given by a certain merchant, the broker would be very careful in offering it for sale. If a banker has twenty thousand dollars of it, for example, and the broker knows that he cannot increase the amount, he will be careful not to offer more. The broker would be equally careful not to put such paper on a printed list through fear that the banker would see it, and concluding that the merchant was giving a large amount of paper, would determine to buy no more. The banker, in other words, might conclude that the merchant was issuing more paper than he ought to issue if his name appeared very frequently on printed lists.

Sometimes the broker has the notes in his possession for sale; in other cases he has simply a memorandum of them. In the latter case he has a printed form containing the name of the maker, amount, when and where payable, endorser, and other particulars. A list is sent to a bank containing such a description of notes, or a broker, or agent for

him, may visit a bank personally and exhibit such a list, or the paper itself, which he wishes to negotiate. Many banks are visited several times a day by these brokers offering the notes of persons for sale.

It may be further added that brokers do not always get possession of the notes until they have paid for them. Several practices exist in this regard. One practice is for a merchant to make notes and then deliver them to a note-broker for sale. The latter may give a receipt or acknowledgment, or he may not. In such a case the merchant has entire confidence in the broker, otherwise he would not give him notes without adequate security. There are some very good reasons for thus leaving notes with a broker when perfect confidence is reposed in him. Very likely he has a class of customers, retired merchants, perhaps, who buy paper occasionally. They frequent his office, and, if he has notes which they can examine, may be led to purchase, whereas they would not do so if the broker had only a memorandum of the paper, and was obliged to send for it before he could sell it and get the money therefor. For this reason, therefore, sales are facilitated by entrusting the broker—and, in truth, vast amounts are left for sale. When Alonzo Follet, of New York, failed a few years since, he had in his office nearly $10,000,000 of notes, and the amount of paper that he had sold anually was about $100,000,000.

Another way is for merchants to leave their paper with a note-broker and get immediately from him a certain amount thereon. A merchant, for example, may leave $25,000 of paper and ask for $10,000, expecting the balance when the paper is sold. The note-broker pays him this advance on account, and after selling the paper and deducting his commission sends the balance.

Another way is for the note-broker to buy the paper, paying therefor at the time of the purchase. A note-broker will go to a merchant and say, "I will take so much of your paper at such a rate." If the rate be acceptable, the merchant will sell it to him and get his money. In these cases the broker expects to sell the paper at a lower rate and to make more than he would if charging the ordinary commission. Many brokers do wholly a business of this kind—buying paper and selling it at the best rate they can obtain for it.

In negotiating paper note-brokers sometimes endorse it. Follet, whom we have previously mentioned, guaranteed all the paper he sold, and thus became contingently liable for a very large amount. It was said at the time of his failure that the banks which bought it did not do so on his guarantee, but on the credit of the makers of the notes. A bank president at that time remarked, "If a man were to guarantee the note of the richest man in New York, he would be contingently liable for its payment, but the note would be valuable because the maker was responsible. Follet's transactions were very large, and he handled the paper of some of the best firms in the city. I presume the banks of the city are now buying a million dollars of paper a day from

brokers, all bought because the maker is supposed to be good, and not because the broker endorses it."

It may be added that banks do not buy paper of the brokers in preference to discounting that of their depositors; but as we have previously said, these institutions are often unable to loan all their resources to persons who make a direct application for money. Banks must therefore either resort to the note-brokers, or loan in some other way.

This bought paper, as it is termed, is entered in a discount book, separate from the Dealers' Discount Book, and for a distinction the bought-paper book is called Cashier's Discounts. Cashier's checks are given for the paper purchased, and each day the total payments of the Cashier's Discounts are credited to the "cashier account" in the ledger. Each check when presented and paid is charged to cashier's account, which offsets the corresponding credit. Paper discounted for dealers is posted in a Dealers' Bill Book, with a title page for each dealer. Paper purchased is posted in a Cashier's Ledger, with a title page for each name on the strength of which the paper is bought, and both books, of course, are indexed. A reference to any name can therefore readily be had, and the amount on hand, if any, at once be ascertained.

The officers, therefore, may tell at a glance what, and how much of any name bought, they may have on hand. Many banks have lying on their president's desk a small book, the leaves of which are made of silicate slate, with two or three leaves for each letter of the alphabet. The names of paper purchased, with the due dates and amounts, are written in pencil on the appropriate pages, and the entries are corrected daily by erasures or additions, as the case may be.

Some banks have adopted a very perfect system of recording the information they obtain concerning the paper they buy. Books are prepared with a page or more devoted to each name. Here are recorded, briefly and succinctly, condensed extracts of mercantile agency reports, extracts from letters that may be received relating to the character and responsibility of the house in question, synopses of conversations with merchants, bankers, and others who have been found to know the firm, etc., etc. A voweled index affords means of speediest reference to any desired name.

Although the buying of paper has long been practiced by the banks, the Supreme Court of Minnesota has declared that a bank which was authorized by statute "to carry on the business of banking by discounting notes, bills and other evidences of debt," is without authority to buy paper. The custom of buying paper has not been shaken in the least by this decision. It has been practiced too long and extensively to be overthrown by anything except a legislative enactment.

One of the greatest objections to purchasing paper is the lack of knowledge concerning the real worth of the makers and other parties. After the failure of a great house in 1883 for several millions that had

kept itself afloat for a long time by selling its paper, the New York Tribune remarked, "Even the commercial notes are no longer issued or discounted as they used to be, under circumstances which gave the best possible guarantee of their payment, but are thrown on the market to be sold by brokers where and when they can. The old idea of reliance upon the personal integrity of a borrower, or his business sagacity, or a close acquaintance with his financial position, has nearly gone out, like a spent candle. Yet it is notoriously true that the new system of credits is not safer than the old. In these days no one can judge how much paper a merchant has out, or how much gambling there may be behind his borrowing, or whether the collaterals that seem so good to-day will prove equally salable in any emergency. One firm goes down owing $7,500,000 or more, and is found to have been really bankrupt a year or so for two millions, and yet the present methods are such that its credit had hardly been doubted until the very end."

Many a banker knows from dear experience the force of these words. He acts in the dark. He tries to grope along, he makes inquiries from various sources, but he realizes after seeking for light from every quarter except from the borrower himself, that he has not learned much. And his course will necessarily be dark and uncertain until he makes a radical departure and demands statements, as we have described, and verifies their truthfulness by co-operation with other banks.

If a single director objects to a note offered for discount or purchase, the board generally will refuse to make the loan. If an objection should be based simply on prejudice, the board probably would not respect it. But if a director should say, "I have a pretty good reason for not buying that paper," his opinion would be conclusive. Directors are chosen partly for the information which it is supposed they will throw on the condition of business, and especially on that in which they are engaged. It is supposed that a director knows more about the condition of persons engaged in the same business as himself than the other directors, whose occupations are different. This is why their opinions have so much weight. Nevertheless, bank directors are not always disinterested in the performance of their trust. Not long since we heard the following story: A bank director, who was also a member of the produce exchange in a large city, attended a meeting of the directors of the bank. Several persons, who also were members of the produce exchange, had presented notes for discount, accompanied with collateral securities, principally warehouse receipts for grain. When these offerings were read, one after the other, the director in question objected, maintaining that they were not as safe as they ought to be. When the entire list of offerings had been exhausted, a large balance remained unemployed. The director just mentioned said if no better use could be made of it, he would take it though at a rate which was not very remunerative. His offer was accepted. Immediately he went

to the persons who had applied for loans to his bank and loaned to them on the securities which they had offered. Of course he was not the typical bank director. Generally, directors are men of well-known integrity, and though too often neglectful in attending meetings, they freely give their best experience to the bank when they do attend.

Bank managers, as well as bank directors, are often importuned to make loans through friendship and other than strictly business reasons. For many years the title page of the Banker's Magazine has borne the following words, uttered by a successful and eminent banker of Boston, Nathan Appleton: "No expectation of forbearance or indulgence should be encouraged; favor and benevolence are not the attributes of good banking; strict justice and a rigid performance of contracts are its proper foundations." Notwithstanding these plain teachings, many a bank officer, through sympathy and regard for friends and customers, has granted loans which were not warranted either by their condition or by that of the bank at the time of granting them. There are many occasions when a bank manager cannot easily determine what course is the most expedient. A considerate regard for the wants of a customer, his ample security for the loan, the condition of the bank and of trade—these are circumstances which not infrequently render a decision difficult. Of course no extra lights can be provided for these extraordinary occasions. Human experience will not avail much at such times. If the bank manager does not comprehend the situation, so much the worse for him and for all concerned; any lesson he might be likely to learn would come too late to be of any use to him.

When Mr. McCulloch was Controller of the Currency, he prepared some "Suggestions to Managers of Banks," among which were the following relating to discounts. Nor are they less forceful than they were when he wrote them:

"Let no loans be made that are not secured beyond a reasonable contingency. Do nothing to foster and encourage speculation. Give facilities only to legitimate and prudent transactions. Make your discounts on as short time as the business of your customers will permit, and insist upon the payment of all paper at maturity, no matter whether you need the money or not. Never renew a note or bill merely because you may not know where to place the money with equal advantage if the paper is paid. In no other way can you properly control your discount line, or make it at all times reliable.

"Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although some times proper and necessary, are generally injudicious and frequently unsafe. Large borrowers are apt to control the bank, and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital

and surplus, it owes for, and its managers are therefore under the strongest obligations to its creditors, as well as to its stockholders, to keep its discounts constantly under its control.

"Treat your customers liberally, bearing in mind the fact that a bank prospers as its customers prosper, but never permit them to dictate your policy.

"If you doubt the propriety of discounting an offering, give the bank the benefit of the doubt and decline it; never make a discount if you doubt the propriety of doing it. If you have reason to distrust the integrity of a customer, close his account. Never deal with a rascal under the impression that you can prevent him from cheating you. The risk in such cases is greater than the profits.

"In business, know no man's politics. Manage your bank as a business institution, and let no political partiality or prejudice influence your judgment or action in the conduct of its affairs. The national currency system is intended for a nation, not for a party; as far as in you lies, keep it aloof from all partisan influences."

Loans are made by the banks in many of the large cities by the president or cashier or a finance committee. Times have greatly changed and borrowers often wish to know at once whether they can be accommodated or not. They cannot wait two or three days for a board of directors to consider their application. A few banks hold directors' meetings daily, the presidents insisting that they are unwilling to take the responsibility alone of lending the bank's money.

The finance committee usually consists of three or five members, who are expected to take an active interest in performing their duty. Their methods of finding out the condition of applicants and whether loans ought to be made or not are quite similar to those of a board of directors, or of the bank manager. When the board meets the loans made are reported for ratification by the board itself. The same course is pursued by the president or manager when he is authorized to lend the bank's money.

A bank examiner, whose long service renders his opinion worthy of consideration concerning the different practices of discounting paper by the president or cashier and a discount committee remarks, "Experience has shown that as a rule the former is not the best or safest method for banks to follow, although in many cases, under favoring conditions, it may have proved eminently satisfactory. The wise officer will desire the help and judgment of a committee, and the dividing of responsibility; although if he has shown himself a competent and careful officer he should be made to feel that the board has confidence in his judgment, and does not wish to restrict his authority to the point where he is put in an unfavorable light in the eyes of customers. It is in regard to large or questionable lines of discount and new offerings that the combined judgment of a committee can be of most service both to the officers and to the bank. The Offering Book is not so generally

in use as it should be. Every bank should keep an Offering Book in which paper offered for discount is described and action noted."*

In 1876 Mr. McCulloch delivered an address before the American Bankers' Association, closing with a statement of the principles of sound banking, which, notwithstanding the length of this chapter, ought not to be omitted:

"First.—The capital of banks should be real, not fictitious.

"Second.—The managers should not be borrowers, nor should loans be made to stockholders merely because they are stockholders.

"Third.—A certain amount of the annual profits should be carried to the surplus—the larger the surplus the better—not only for the safety of the stockholders, liable as they are, under the bank act, for an amount equal to their shares, but for the protection of depositors.

"Fourth.—Banks should be kept strong in their cash reserves, as times frequently occur when the strongest stand in need of them. Nothing in the long run pays better than a 'goodly' amount of idle money, especially when specie is the only legal money.

"Fifth.—As banks are commercial institutions, created for commercial purposes, preference in discounts should always be given to paper based upon actual commercial transactions. Banks are not loan offices. It is no part of their business to furnish their customers with capital, nor should loans be made under any circumstances for operations in stocks, or to furnish facilities for stock operations.

"Sixth.—Renewals should only be permitted to secure doubtful debts, or in cases in which more time is required than was anticipated when the loans were made, to complete the transaction upon which they were based.

"Seventh.—Such salaries should be paid to officers and clerks as will relieve them from the temptation to dishonest practices; and the services of those whose expenditures exceed their salaries should be promptly dispensed with.

"Eighth.—Bank managers should bear in mind that they are not only trustees of stockholders, but that they owe something to the public—that their whole duty is not performed when good profits are made and when solvency is secured, but that they should do all in their power to encourage morality in business and to elevate credit, especially commercial credit, to the highest standard."

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*Bankers' Magazine, March, 1897, p. 378.

CHAPTER IX.

THE PRESIDENT.

The president is the chief executive officer of the bank, and presides at the meetings of the Board of Directors, but is not necessarily the business head or manager of the institution. Some banks have a vice-president. The vice-president in the absence of the president assumes the functions of the latter.

In legal matters the president must sign documents conveying real estate, and with the cashier must sign certificates of stock issued to shareholders, and the circulating notes. He, or the cashier, may verify the various reports required by the national banking law to be made to the Controller, and must certify to that officer the payment of each installment of stock. He cannot act as proxy at meetings of the shareholders.

He is not required to give a bond to secure the bank in the event of not faithfully performing his duties, but all the officials below him give such security. It is supposed that his large pecuniary interest in his bank, and his well-known standing in the community where he resides, will prove an ample guaranty. Of course, bank presidents are sometimes recreant to their trusts, but happily not often. It is well to believe there are persons living in every community whose word is as good as their bond, and for them to give such an obligation, therefore, is superfluous.

The salary of a bank president varies from a very small sum to fifteen thousand dollars a year. When his duties are very few, and only a slight portion of his time is devoted to the affairs of the bank, no salary is paid. This is often the case.

We have mentioned that in some cases he is the real business head of a bank, and that in others he is not. The country banks, so called, by which is meant in this place, the banks outside the larger cities, are managed by the cashier. Here and there may be found an exception. In the large cities, however, the president is usually the chief business officer, going to the bank regularly, and spending his time there during banking hours. He is a hard-working officer, acquainted with all the details of the business, and interested in all matters pertaining to the prosperity of his enterprise. Occasionally the president

of a city bank is a figure head, and then the vice-president or cashier is the chief business officer.

An author, from whom we shall frequently quote, has said: "It is considered desirable that the president should possess an independent income, and be free from the entanglements of trade. Engagement in other business would distract his attention from the bank, and might give rise to a conflict of interests. Under the pressure of personal embarrassment, with the means of relief in his official hands, even a rigid sense of duty might be overcome. The highest tone of sentiment on this point is, therefore, adverse to his connection with the hazards of commerce. Yet several of our most prosperous New York City banks have always been presided over by active, enterprising merchants.

"There are other reasons why a bank president should hold himself aloof from mercantile business. With large capital invested in a particular branch of trade, his views might insensibly become narrow and partial. An engrossing special interest would divert his mind from the close study of credits generally, and make his judgment less clear, as the condition of commerce becomes more critical. In a season of growing stringency in the money market, self-interest compels bank directors, in common with others, to withdraw their attention from all affairs but their own, and thus additional responsibility is thrown on the officers, particularly on the president. The discounting of paper is then less strictly confined to the sessions of the board. It is spread through every hour of the day, with specialties and importunities which can be dealt with only individually and privately."*

The truth of Gibbons' first remark has been illustrated in a startling manner on more than one occasion. A bank president ought not to be regarded morally as a very superior being. If he is engaged in outside interests of greater pecuniary or other importance to him than his bank, there is danger that he will neglect or use it for a personal end. This has happened again and again. Within a very short time several fresh illustrations have been added to those existing before.

If his entire service is desired and expected, the bank should pay him a salary commensurate with the worth of his service. And one of the strongest inducements to keep him out of other business that would distract his attention and render him less efficient, is a liberal salary, putting him above the need of acquiring other means to sustain himself and his family.

It need hardly be said that a bank president should possess a very considerable knowledge, especially of men. It is true that many a successful bank president has had only a slight acquaintance with books, but he has understood men. To have this knowledge in a

*Gibbon's Banks of New York, p. 24.

marked degree is a gift rather than an acquirement; yet the less fortunate should strive, nevertheless, to acquire by determined effort that knowledge of men which is so essential to business success.

A bank president should keep a keen watch on the movements of trade, on the strength and weakness of those to whom money is loaned, or who are likely to ask for loans, for on the sagacious lending of the bank's resources mainly depends its prosperity. Some bank presidents read the trade newspapers with great care, and search in every quarter for information relating to the borrowers of money. If a considerable number of failures occur in a particular trade they are carefully noted. A bank president told the writer a few years ago that a great deal of tobacco had been injured in curing during that year, and that he should be especially careful about discounting "tobacco paper," because he expected that a good many failures would happen among tobacco manufacturers. This is the kind of vigilance required for a bank manager. Still, however wisely he may conduct the business of discounting, risks are unavoidable, and losses will accrue.

As correct sentiments beget correct conduct, a banker ought to apprehend correctly the objects of banking. They consist in making pecuniary gains for the stockholders, by legal operations. The business is eminently beneficial to society; but some bankers have deemed the good of society so much more worthy of regard than the private good of stockholders, that they have supposed all loans should be dispensed with direct reference to the beneficial effect of the loans on society, irrespective, in some degree, of the pecuniary interests of the dispensing bank. Such a banker will lend to builders, that houses or ships may be multiplied; to manufacturers, that useful fabrics may be increased; and to merchants, that goods may be seasonably replenished. He deems himself, ex-officio, the patron of all interests that concern his neighborhood, and regulates his loans to these interests by the urgency of their necessities, rather than by the pecuniary profits of the operations to the bank, or the ability of the bank to sustain such demands. If, for instance, his bank is situated in a region dependent for its prosperity on the business of lumbering, the dealers in lumber will naturally constitute his most profitable customers; hence, in promoting his own interest out of their wants; he will, legitimately, benefit them as well as himself, and benefit them more permanently than by a vicious subordination of his interests to theirs. Men will not engage permanently in any business that is not pecuniarily beneficial to them personally; hence, a banker becomes recreant to even the manufacturing and other interests that he would protect, if he so manage his bank as to make its stockholders unwilling to continue the employment of their capital in banking.

Formerly, the authority of a bank president was very limited. The only well defined authority he possessed, besides signing certificates

of stock, and signing and publishing statements, was in conducting the litigation of his bank. In the earlier days, therefore, he was hardly anything more than a dignified presiding officer at annual and board meetings. But since then he has become in many banks, and with rare exceptions in all the banks in the larger cities, the real head and responsible manager. In these he has assumed extensive powers and has been obliged to assume them. Their assumption was so necessary that the courts have had no hesitation whenever their exercise has been questioned, as they often have been of late, in justifying his course by virtue of his position. And doubtless he is safe in assuming all the implied authority possessed by the cashier in addition to the authority granted to him by statute. It is contrary to reason to restrict the authority of the legal head of such an institution within a narrower limit than that of an officer below him. This active participation in the business of his bank requires that he should be the real head in authority as well as in name.*

In modern banking the president often exercises very great authority in lending money. Opinions differ much concerning his authority to dispose of the resources of his bank, and the correct answer must be varied by his ability, the composition of his board of directors and other circumstances. In some cases doubtless the directors are fully justified in investing him with very large powers to lend the bank's money; in other cases prudence just as clearly would confine these powers within narrow limits. The Bank of England, with a capital of about (including surplus) $90,000,000, intrusts the loaning thereof to the governor alone. He has under him a subgovernor, selected from the directors, while an executive committee, designated by the board, may be consulted by him; but the committee employs itself in digesting matters for the action of the court of directors, rather than in clogging the proceedings and diminishing the discretion of the governor. All the joint-stock banks of England are organized with a like self-depending executive, under the name of general manager, and a bank organized thus to grant loans at all times, during its business hours, will present a great inducement to customers over a bank whose discounts are accorded at only stated days, and after a protracted deliberation by directors—loans being often useful only when obtained

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*For the most recent cases setting forth the authority of the president, see U. S. Nat. Bank v. First Nat. Bank, 79 Fed. Rep. 296; Farmers' Nat. Bank v. Templeton, 40 S. W. Rep. 412; Armstrong v. Cache Valley Land and Canal Co., 48 Pac. Rep. 690; Brown v. Farmers' and Merchants' Nat. Bank, 31 S. W. Rep. 285; Merchants Nat. Bank v. Eustis, 28 S. W. Rep. 227; First Nat. Bank v. New, 45 N. E. Rep. 597; Chemical Nat. Bank v. Armstrong, 76 Fed. Rep. 339; Louisville Trust Co. Case, 75 Fed. Rep. 433; Ditty v. Dominion Nat. Bank, 75 Fed. Rep. 769; Bank v. Sullivan, 11 Week. Notes 362.

promptly. Accordingly, the view is maintained that the due protesting of dishonored paper, and notifying of endorsers—the enforcement of payment, or the obtainment of security on debts which prove to be unsafe, will all wholesomely fall under the control of the chief executive, by reason that the vigilance of one person can control them better than a divided vigilance; and that the debts having come into the bank by his agency, his self-love is interested in their collectability. He must feel a like responsibility against losses by forgery, overdrawn accounts, the depredation of burglars, and the peculation of subalterns. To secure in the highest degree his vigilance in these particulars, he should be intrusted with the selection of all subordinate agents, even of the notary and attorneys. At least none should be appointed or retained with whom he is not satisfied. His self-respect cannot be too much fostered by the board, and no measure should be enforced, and no loans granted, which can wound his sensibility, or diminish his influence with his subordinates or the customers of the bank. The more he can thus be brought to identify himself with the bank, the more the bank will be exempt from the disadvantages which make corporations contrast unfavorably with private establishments, and which a proverb alludes to in saying that what is every man's business is nobody's. So great is the assimilation to their bank which some managers attain, that a poignancy of solicitude in relation to the debts of the bank, the preservation of its credit and the productiveness of its capital become the greatest evils of their position, especially when they are predisposed to morbid nervousness, which, with disease of the heart, their position induces and fosters. Such a man will obtain from his board all the information it can yield him in relation to the pecuniary responsibility of his dealers; and the directors should give him their opinion—not mandatory, to relieve his responsibility, but to inform his judgment, though he will soon discover that his only safe guide will consist of his feelings founded on personal observations too subtle often to be described, much less enumerated.

On the other hand, there are those who contend that banks would be better served if they were conducted, as many of the English banks are, by a general manager who is not the official head. An advocate of the English system remarks that the manager always attends the meetings of the board, and makes the report of current business for its action. As he is not a member of the board (still less its presiding officer), but a salaried employe, he is expected to answer respectfully all questions put to him by any member.

By the American system the president occupies the position of a superior to his fellow-directors because:

First, he alone knows about all the business.

Second, he is the presiding officer, which gives him a great ad-

vantage, and he is commonly sustained by some members who may be closely allied with him in business.

Third, he is usually the largest shareholder or the nominee of the largest shareholders, and in a position to "drop" any troublesome member of the board at the next election. These causes are sufficient to make his position practically dictatorial.

Further, by the English system, the members of the board are in direct contact with the actual manager of the company, and come to understand its affairs in detail, and to have views of their own; while, in an American board, all that the directors frequently know of the practical working of details is what they can screw at second-hand out of the president.

It has been remarked that to make gains is the proper business of a banker, and, as the principal source in legitimate gain is lending money, the bank must lend to the extent of its ability—erring on the side of repletion, rather than of inanition; for a banker knows not how far his bank can bear extension till he tries; hence, if timidity, indolence, or apathy, limits his loans in advance of necessity, he may injure the community by unnecessarily withholding pecuniary assistance, and injure the stockholders by unnecessarily abridging the profits. He must not, however, extend his loans regardless of the future, but, like a skillful mariner, he should see an approaching storm while it is an incipient breeze, and meanwhile carry all the sail that will not jeopardize the safety of his charge; governing his discounts, at all times, more by the condition of his funds, and his own prospective resources, than by any reputed scarcity or abundance of money in other places and in other banks.

If he can make reasonably good profits on his capital without much expansion, he may keep more restricted in his loans than he could if less favorably circumstanced. Every banker must, however, remember, that to be strong in funds and rich in profits are natural incompatibilities; hence, the more money a banker wishes to make, the poorer in funds he must consent to become. In banking operations, as in most other, wisdom lies in a medium between extremes; and if a banker can keep funds enough for practical safety, he had better forego excess of funds, and receive an equivalent in gains. Physicians say that the human body can bear excess of food better than deficiency. The excess can be discharged by cutaneous eruptions, as we see sometimes in over-fed infants; but deficiency of nourishment will not relieve itself; so in banking, a repletion of loans, if they are undoubtedly solvent, prompt, and short, will soon of themselves work a relief to the bank; but a paucity of loans cannot, by any process of its own, cure the scant profits of the stockholders. Banks are rarely injured, therefore, by an excess of discounts. When banks fail, their disaster proceeds from the quality of their loans, not from the quantity.

Funds should not be inactive when no better excuse exists therefor than that the business that can be obtained is not so profitable as the business of some other place, or at some other period. The legal rate of interest is so high, that the voluntary forbearance of its reception for even a short period, is ordinarily a greater evil than the reception of any common description of solvent loans. Any way, a banker who keeps his funds inactive, to await the offer of loans more lucrative than simply the interest of money, should be well assured that the future loans will be sufficiently lucrative to compensate for the forbearance. But no disadvantages of position must be deemed a sufficient apology for the assumption of hazardous loans. When no safe business offers, no business should be transacted by a banker who entertains a proper respect for himself, or a proper feeling for his stockholders. Gains may be impossible, but losses are measurably avoidable. If any location presents the alternative of no business, or great hazards, a banker is accountable for the choice which he may make between the two alternatives; and he is accountable no further.

As every loan is usually attended with some advantage to the bank, in the ways we have explained, beyond the interest paid by the borrower, the sooner the loan is to be repaid to the bank, the more frequently will the bank be able to reloan the money, and obtain a repetition of the incidental advantages.

Country banks being subject, at certain seasons, to a demand for currency, every judicious banker will endeavor to so select the loans which he makes during a year, that large amounts of them will become payable at the precise periods of the spring and fall when funds will be most needed. This is imitating the conduct of Pharaoh, who, during the years of plenty, accumulated provisions for the periods of apprehended famine. Many months of every year are months of plenty with every well-conducted bank. The paper which is selected for the future contingency will be useful in proportion to its reliability; and paper payable in New York, or other Eastern cities, may be more useful than any other. No rule of banking is more practically valuable than the foregoing.

In large cities discounts are generally made to persons who are known personally or by reputation to some of the directors, but in country banking, the borrowers and their endorsers in many cases are residents of remote places, and unknown, personally, in the locality of the bank. A country banker, who should insist on a personal acquaintance with the makers and endorsers of all the paper he desired to buy, might find his business restricted to a circle too small for the employment of his capital. In vain will such a banker insist that he ought not to make loans to persons of whom he possesses no knowledge; the answer will be that he should acquire the knowledge. It is indispensable to his bank. He is bound to know a sufficient number

of persons to enable his bank to employ its capital advantageously. Every note, therefore, that he rejects for want of knowledge, is ostensibly a slight reproach on him, in cases where he has not a sufficiency of known borrowers; while every note that he rejects or accepts by means of his knowledge of the parties is a tribute to his industry and vigilance.

The preceding remarks will show why country banks are specially liable to loss from forgeries. Moreover, many of the makers and endorsers who deal with country banks write poorly, and their signatures bear but little internal evidence of genuineness, even when you are partially acquainted with the parties; for the same person will write differently at different times, and especially with different pens and different qualities of ink; and he varies these continually. Still, the greater the danger the greater is the caution which the banker must exercise. He must bring to the difficulty all the scrutiny of which the case is susceptible, or he will not stand excused for consequent losses. A comparison of any proffered signature with one that is genuine, though encumbered with difficulties as above explained, is a guide that should not be neglected; and it is often the best that can be resorted to. Banks, therefore, keep a book in which every person who deals with the bank inserts his name. The signatures should be placed alphabetically, to facilitate a future reference to them. The endorsers may never visit the bank; but, when a note is paid, the names of the endorsers may, with the consent of the maker, be cut from the note, and pasted into the book, in their proper order.

In no very long time a mass of autographs may be thus collected. Some names on notes may not be deserving of such preservation; and in this particular, as in all others, the banker must exercise his judgment.

As a banker will lend to the extent of his ability, that he may make for his bank all the gains in his power, he must be well acquainted with the pecuniary means and abilities of his bank. He can keep on his table a summary showing the precise amount of his funds and where they are situated, and of what they are composed; also an aggregate of his various liabilities. Such a summary, when corrected daily, or more frequently if necessary, will constitute a chart by which he will be able to judge whether he can lend, or whether he must retrench existing loans. The funds that will be adequate to any given amount of liability a banker must learn by experience, embarrassed as he will be by a want of uniformity in the results of his experience at different periods. Every bank must be liable, momentarily, to demands for payment of its deposits (and bank notes, if it issues any) beyond its present funds. Practically, however, if a banker has funds enough, day by day, to meet the requirements of the day, he has funds enough. "Sufficient for the day is the evil thereof," is a proverb peculiarly applicable in banking.

But a banker must not be satisfied by knowing that his funds of to-day will be sufficient for the wants of the day. He must possess a reasonable assurance that the same will be his position "to-morrow, and to-morrow, to the end of time." To gain this assurance, he ought to keep also before him one or more lists in detail of his prospective resources, showing what notes and acceptances will be payable to the bank daily for some weeks or months ahead, and where they are payable. With such lists, and a knowledge of the reality of the paper thus going onward to maturity, he will be able to judge whether his prospective resources will need the aid of his existing unemployed funds; or whether he may loan them, and even extend his liabilities in anticipation of a prospective surplusage of resources.

By means of such lists as we have just described, should a banker discover that his existing resources will be small during, say, the month of June, he can aid the defect by discounting in the preceding May, April or March, paper that will mature in June. By thus regulating, prospectively, his future resources, he can be always provided with funds. And that a banker may, at all times, be master of his resources, he should never promise prospective loans, or make loans with any promise of their renewal. The more he keeps uncommitted, the better will he be able to accommodate himself to future exigencies. Banking is subject to sufficient uncertainties, without unnecessarily aggravating them by prospective agreements. A banker may be unable to fulfill such pledges, and be thus compelled to falsify his promises; or, he may be able to fulfill them only at a sacrifice of the interests of his bank, and thus be placed in the unwholesome dilemma of injuring his personal character, or of preventing the injury only by a sacrifice of the interests of his bank.

A banker is compelled to employ officers to whom he intrusts his vaults and their contents. Robberies are often committed by persons thus intrusted, and some such robberies have remained long concealed. The banker cannot be responsible for all such occurrences; still, vigilance can accomplish much in the way of security against mischances, and the banker is responsible for the exercise of all practicable vigilance. Robberies and frauds possess usually some discoverable concomitants. No man plunders to accumulate property that is not to be used. Its use, therefore, which can rarely be wholly concealed, is a clue which a vigilant eye can trace to the plunderer. Nearly every plunderer is a prodigal, and may thereby be detected; nearly every plunderer is needy, and should therefore be suspected. The banker should know human nature, and be able to trace effects to their causes, and to deduce effects from causes. To this extent he is answerable for the safety of his bank. The sentinel whose post happens to be surprised by an enemy may escape punishment as a criminal, but

he can rarely gain commendation for vigilance, or escape censure for carelessness.

No system of banking can escape the casualty of doubtful debts. Usually the most favorable time to coerce payments is when they first become payable. Then the debtor has expected to pay, and if he is then in default no certain dependence can be made on his subsequent promises. He is also usually less offended by a legal enforcement of payments when they are promptly enforced, and when he knows the creditor is disappointed by the default, than he is after the default has been tacitly acquiesced in by a long forbearance of coercive measures. Additional security, when necessary, can also be more readily obtained at the time of the default, than it can after the debtor has become reconciled by time to his dishonorable position. His credit is better now than it will be subsequently, and he can more readily now than subsequently obtain responsible endorsers. In relation to the extension of time on receiving additional security on a weak debt, any extension that is productive of security is a less banking evil than insecurity; just as any protraction of disease that results in health is a less physical evil than death.

A banker will be often subjected to importunity by persons who will desire a deviation from the usual modes of banking. They will propose a relaxation of good rules, and allege therefor some pressing emergency; but if the relaxation involves any insecurity, any violation of law or of official duty, the banker should never submit, even when the result may promise unusual lucrativeness to his bank. While a banker adheres with regularity to known forms of business and settled principles, Providence is a guarantee for his success; but when he deviates from these, Providence is almost equally a guarantee of disaster, both personal and official.

On the other hand, it has been said by a banker whose experience is worth heeding, that it is one of the duties of the president to protect a dealer when he is unjustly assailed. To do this is also for the advantage of the bank. Beside the general results of the fair treatment of credit, there is this particular result, that the best class of customers which a bank can have consists of those whom it has nurtured from moderate to larger success, and whose experience has been all along linked in agreeable intercourse with its officers and directors. These are not easily seduced to open accounts with other banks; but they are faithful to their old friends, and they introduce other dealers.

Banking is a business, and should be reciprocally beneficial to the borrower and the lender. When a borrower's business cannot yield the requisite reciprocity of benefit, he will often attempt to mend the defect by pertinacity of application, and by persuasions addressed to the directors of a bank personally, as well as to the banker; and by

servility and sycophancy. Such conduct is a strong symptom of some latent defect in the applicant's pecuniary position, and the appliances should strengthen a banker in his refusal of loans rather than facilitate their application. Loans thus obtained rarely result favorably to the lender.

No man is safe when engaged in a speculation, especially when the price of the article that he purchases is above the usual cost of its production. The speculator's intellect soon loses its control over him and he will be controlled by his feelings, and they are unnaturally excited. He becomes a monomaniac in the particular concern with which he is engaged. He will increase his purchases beyond all moderation, and at prices which he himself, when he commenced his purchases, would have deemed ruinous. Many banks are destroyed by such speculators. A bank will loan to them till its safety seems to require that the speculation must be upheld against a falling market; and the effort is made till the continued decline in prices ruins both speculators and sustaining bank.

When a debtor arrives at a certain magnitude of indebtedness he becomes the master of his creditor, who is somewhat in the position of Jonah when swallowed by the whale. The debtor can say to a bank thus circumstanced that to stop discounting for him will ruin him, and that his ruin will involve a loss of the existing debt. No prudent banker will be placed in such a position, but should any banker lapse into so sad an error, he will rarely mend his position by yielding to the proposed necessity for further loans. He had better brave the existing evil than yield to an argument which, if already too potent to be disregarded, will acquire additional strength by every further discount, and render his inevitable fall more disastrous to his stockholders and more disreputable to himself.

With respect to his contingent expenses, the more a banker can reduce their amount, the more easily will he make reasonable dividends of profit among his stockholders, without an undue expansion of loans and consequent anxiety to himself. The income of a bank is only an aggregate of petty accumulations. Every unnecessary expenditure of one hundred dollars by the bank will nullify the interest on four ninety-day loans of fifteen hundred dollars each—loans often withheld from meritorious claimants. The economy of which we speak is not any unjust abridgment of properly remunerative salaries to faithful officers and servants, who should, however, labor diligently and perseveringly in their vocations, as men labor in other employments, so that the bank may economize in the number of its agents, instead of economizing in the magnitude of their salaries. A hundred dollars, or a thousand, when contrasted with the capital of a bank, may seem a small matter, and probably bank expenditures are often incurred under such a contract; but the true contrast lies between the ex-

penditure and the net percentage of a bank's gains. A bank whose net income will not exceed the legal rate of interest possesses no fund from which to squander. And banks often expend an unduly large part of their capital in architecture to ornament the city of their location, or to rival some neighboring institution, whose extravagance ought to be shunned, not followed. No person has yet shown why banks should be built like palaces, while the owners of the banks are to a good extent poor, and live humbly. The custom is perhaps founded on the delusion of deeming a great capital identical with great wealth. When several men, for any purposes of gain, unite their several small capitals, they may well need a larger building and more agents than each man would require were he unassociated; but that the association can afford an organization increased in splendor as much as in magnitude, is a fallacy somewhat analogous to the blunder of the Irishman, who, hearing that his friend intended to walk forty miles during a day, said that he would walk with him, and then they could walk eighty miles.

When solicited by a neighbor or a friend, few men possess vigor enough, or conscientiousness enough, to refuse a recommendation, or to state therein all they suspect or apprehend. They will studiously endeavor not to make themselves pecuniarily responsible by any palpable misrepresentation; hence they will so qualify the recommendation that it will admit of a construction consistent with truth; but the qualification will be so enigmatical or subtle that the banker will not interpret it as the recommender will show subsequently it ought to have been interpreted. Besides, the man who merely recommends a loan acts under circumstances that are much less favorable to caution than the man who is to lend. When we are in the act of making a loan, our organization presents the danger with a vividness that is not excited by the act of recommending. To believe speculatively that we will suffer the extraction of a tooth, is a wholly different matter from sitting down and submitting to the operation. Suicide would be far more common than it is, if a man could feel, when the act was to be performed, as he feels when he only prospectively resolves on performing it. This preservative process of nature no banker should disregard by substituting any man's recommendation for the scrutiny of his own feelings and judgment at the time when the loan is to be consummated, though he may well give to recommendations all the respect which his knowledge of the recommender may properly deserve.

By acting according to the dictates of his own judgment, a man strengthens his own judgment as he proceeds; while a man who subordinates his judgment to other men's is continually debilitating his own. Nothing also is more fallacious than the principle on which we ordinarily defer to the decision of a multitude of counselors. If fifty

men pull together at a cable, the pull will combine the strength of one man multiplied by fifty; but if fifty men deliberate on any subject, the result is not the wisdom of one man multiplied by fifty, but at most the wisdom of the wisest man of the assemblage; just as fifty men, when they look at any object, can see only what can be seen by the sharpest single vision of the group; they cannot combine their vision and make thereof a lens as powerful as the sight of one man multiplied by fifty. A banker may, therefore, well resort to other men for information, but he may differ from them all, and still be right; anyway, if he perform the dictates of his own judgment, he performs all that duty requires; if he act otherwise, he performs less than his duty. Let the counsel of your own heart stand, says the Bible; and, by way of encouragement, it adds, that a man can see more of what concerns himself than seven watchmen on a high tower.

A banker should possess a sufficiency of legal knowledge to make him suspect what may be defects in proffered securities, so as to submit his doubts to authorized counselors. He must, in all things, be eminently practical. Every man can tell an obviously insufficient security, and an obviously abundant security; but neither of these constitute any large portion of the loans that are offered to a banker. Security practically sufficient for the occasion is all that a banker can obtain for the greater number of the loans he must make. If he must err in his judgment of securities, he had better reject fifty good loans than make one bad debt; but he must endeavor not to err on the extreme of caution or the extreme of temerity; and his tact in these particulars will, more than any other, constitute the criterion of his merits as a banker.

CHAPTER X.

THE CASHIER.

We have already said that every bank had a leading business official who was either the president, vice president or cashier. The presidents of the country banks very generally perform only a few duties besides those required by law which cannot be delegated. Here and there may be found a president who is the real head of the concern. In the larger cities the president, in most cases, is the real manager, who is elected to act in that capacity, and on whom the responsibility and success of the bank depend.

The cashier, unless there be a vice president, ranks next to the president, and has certain specified duties to perform. These are mentioned in the law under which the bank exists. But from what has been already said, he may also be the real head of the bank in conducting its business, and this is often the case, especially in country banks, which form by far the majority of the whole number.

The tenure of office of the cashier and other officials of a national bank cannot be put by contract beyond the power of removal by the directors. For, since the national bank act provides that they hold their offices subject to the pleasure of the board of directors, "neither the bank nor its board can make time contracts or appointments in violation of that provision."*

His specific duties may be thus defined. He keeps a record of the meetings of the directors, at which he acts as secretary. The certificates of stock issued to shareholders are signed by him as well as the president, and so are the bank notes which circulate as money. Checks also drawn on other banks are signed by him, unless absent, when they are signed by the president. Drafts and notes sent away to other banks are endorsed by him. These endorsements are usually stamped:

"Pay to the order of
First National Bank, New York City,
Arctic National Bank, Philadelphia.
JOHN SMITH, Cashier."

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*Westervelt. v Mohrenstecher, 76 Fed. Rep. 122; Bolles' National Bank Act, section 85a, p. 43.

The correspondence of the bank is conducted in the name of the cashier, and when his signature is alone required that of the president may be substituted, but the alternate substitution cannot be made. Formerly a cashier could hold no stock in his bank, and it was regarded an improper thing for him to keep his personal account in it. The pecuniary relations of the president, also, toward his bank were the same. This is no longer the case. The cashier is usually a stockholder, and often a director. Under the national banking system, whereby personal liability to the amount of the stock is borne by everyone, if the cashier owns stock he is supposed to be more interested in the success of the bank than if he had no pecuniary interest.

The cashier is appointed by the directors. He gives a bond for ten thousand or twenty thousand dollars for the faithful performance of the duties of his office, and which is signed by two sureties. Each clerk also gives a similar bond, and usually for five thousand dollars. These bonds do not cover losses occasioned by misjudgment or neglect, but only fraudulent transactions. The requirement would be unreasonable to hold these officials liable for losses of every kind.

The bondsmen are men of character and wealth. Their names are submitted to the board of directors, or more generally to the officers, for the purpose of making whatever investigation may be needful. If they do not approve of those offered, others must be procured. In the event of a loss, which the bondsmen must pay, it is divided among them equally.

When an official has been promoted he must give another bond, as the existing one does not protect the bank in the event of a fraudulent loss occasioned by him after his promotion. Recently, several cases have come to light of negligence on the part of directors in not procuring new bonds after making promotions. Frauds were discovered, the bondsmen were sued, but the courts decided that the bonds given simply related to the conduct of the principals when holding the offices named in the instruments.

Such a consequence of promoting an official may be averted, even though a new bond be not given, by inserting a clause in an official's bond binding the surety not only for the losses resulting from any misdeeds of the official while serving in a specified capacity, but also when performing any other duties to which, in the employer's service, he may be subsequently appointed or assigned by the employer.

The following form of bond covers many contingencies:

Know all men by these Presents, That we.....

.....

are held and firmly bound unto the Arctic National Bank of Philadelphia, in the sum of.....Dollars, to which payment well and truly to be made, We bind ourselves, our Heirs, Executors,

and Administrators, Jointly and Severally, firmly by these presents. Sealed with our seals. Dated the.....day of.....in the year of our Lord one thousand eight hundred and.....

Whereas, the above named.....has been duly appointed a.....in the Arctic National Bank of Philadelphia. Now the condition of this obligation is such, that if the said .....shall, for, and during the time of his employment by the said Bank, whether under the present Charter, or any renewal or extension thereof, fulfill with integrity and fidelity the trust thereby reposed in him and faithfully execute the duties and services in the said Bank, which shall from time to time be required of him by the Board of Directors of the said Bank, or the President or Cashier thereof, or by or under their authority, and well and faithfully fulfill all the trusts that shall be by them or by or under their authority in him reposed, as well as his said appointment of ..... as in any other capacity or employment in or concerning the said Bank to which he may hereafter be transferred or appointed by said Board of Directors, or President or Cashier of said Bank, or by or under their authority, then this obligation to be void, otherwise to remain in full force and virtue.

Sealed and delivered
in the presence of

.... (L. S.)
.... (L. S.)
.... (L. S.)

Formerly, the sureties on bonds were individuals. Now, companies exist for the purpose, possessing a large capital, who relieve individuals from this unwelcome service. Their compensation is graded by the amount of the bond; and as they are incorporated, are preferred by banks to individuals. Individuals fail and die; surety or guarantee companies possess a more enduring life. Besides, before incurring this liability, they thoroughly examine into the character of the applicant and thus assure themselves of his worthiness independently of that implied by his position. Moreover, his subsequent career is watched, and if they learn of his departure from proper ways, they are unwilling to continue to act as his surety, and this is a loud notice to the bank to take some action touching his reformation or removal.

The practice is becoming quite general for banks to pay the cost of all the bonds required, which, at present, is about forty cents per thousand dollars.*

Although the cashier is appointed by the board of directors, and is

*An excellent paper on Corporate v. Individual Bonds, by John W. Faxon, assistant cashier of the First National Bank of Chattanooga, may be found in the proceedings of Tennessee Bankers' Association, 1894, p. 76.

amenable to them and within their power of removal, he is also the representative of the stockholders. If, therefore, the president or directors should attempt to use the funds of the bank in an illegal manner, it would be the duty of the cashier to prevent them from doing so if possible. His salary, and also that of the president, is varied by the duties and responsibilities assumed. In the larger banks the president, when he is the real manager, gets from five to fifteen thousand dollars a year, and the cashier from five to ten thousand dollars. The country banks pay, perhaps, half these figures. These, however, are only crude approximations of the remuneration received.

As the cashier is the ostensible executive officer of a bank, he is presumed to have, in the absence of positive restrictions, all the power necessary to transact its business. Thus, in the absence of restrictions, if he should procure a bona fide rediscount of any paper of the bank, his endorsement would bind it, because he has the implied power to transact such business. But he could not, by virtue of his official relation to his bank, bind it as an accommodation endorser of his own promissory note. Such a transaction would not be within the scope of his general powers, and if a person should accept an endorsement of that nature he could not recover of the bank, in case the note was not paid, without proving that it specially authorized the cashier to make the endorsement. There is no presumption in favor of the delegation of such a power.*

One of the first duties on reaching the bank in the morning is to attend to the correspondence. In some of the New York City banks this is very extensive. Formerly the letters were opened by the cashier, but now they are given to clerks appointed for that purpose. The letters containing cash items are retained by the tellers. Those which must be answered by the cashier himself are termed "special letters," and are laid on his desk in the early part of the morning. These may be applications for discounts, proposals from new customers, orders for the purchase or sale of stocks and bonds, letters asking for advice concerning the standing of persons, opinions concerning the worth of certain bonds or stocks, or complaints concerning the conduct of the business of the bank. The answers are copied in a book kept for that purpose.

The number of letters daily received by a bank having a large correspondence may be from two hundred to two thousand. Most of them are formal, containing a statement of enclosures, and can be easily answered. Printed forms are used in most cases both in sending such enclosures, and in acknowledging their receipt. Mere acknowledgments are not usually copied.

All the checks received in the morning letters which can be sent to

*See the opinion of Ch. J. Waite in Savings Bank v. Parmelee, U. S. Supreme Court, 1877.

the clearing-house are put in the package which is to be sent there, as will be explained hereafter. The amount thus received daily in some cases is very large, running into the millions.

A cashier of one of the best-conducted banks in New York City has thus described the usual daily routine of his business. After examining a dozen papers to which the bank subscribes, he looks around to see that all the clerks are on hand and are preparing the exchanges for the clearing-house. By a few glances he can tell whether the work is progressing satisfactorily. If a vacant place is seen, then it is presumed that a clerk is absent, and somebody must be found to supply his place. In the morning, almost all the clerks, except the bookkeepers and the heads of the departments, are engaged in preparing the exchanges. In that bank the letters are so numerous that a large force is necessary in order to get the exchanges ready in time, and a vacancy must be speedily filled if possible. Sometimes he is obliged to assist himself. If a clerk does not appear within ten minutes past nine he is regarded late.

The special letters are brought to the cashier, and those requiring immediate attention are answered at once; others at a more convenient time. Then letters containing remittances are brought in from the bookkeepers. Those requiring special attention are laid on one side, and the instructions they contain are entered in a special letter book for the use of the corresponding clerk. For example, if an advice concerning a payment is requested, it is the duty of the corresponding clerk to make the necessary advice. The last duty which the latter performs in the day is to examine his special letter book, for the purpose of assuring himself that all letters requiring special attention on his part have been answered.

When the directors meet, as we have seen, the cashier meets with them. Besides, he examines loans secured by collateral, to reassure himself of the sufficiency of the security, or perhaps with a view of calling the loan, if the collateral that is securing payment be of a kind which the bank does not wish to hold longer. He also examines the balance books and directs all the detail of the bank, keeping himself informed concerning the business done. Such are the leading features of his daily business, interspersed with frequent calls and interruptions. The afternoon hours are not so pressing, and the duties are more varied.

When the money market is "easy," the duties of a cashier are very agreeable. The departments of the bank move along harmoniously. The dealers call and transact their business and go away in good humor. If they want to get notes discounted this is done promptly. Very often social topics are pleasantly blended with their negotiations. But when the market shows signs of tightening, then these pleasant daily scenes are quickly changed. The amount of paper

offered for discount is suddenly doubled, and the amount discounted is reduced one-half. Merchants are not satisfied with their usual preparations for future payments. They are determined to get more ready money, if possible, and eagerly demand more loans. These are the times that test the ability of the bank manager, and which prove his fitness or unfitness for his position.

One of the duties of a cashier is to increase in every proper way the business of the bank. The banking business in this respect does not differ from any other. The profits in the business in most banks are made on the deposits. To increase these, therefore, is the ambition of all concerned in the enterprise, and especially of those who are the most active and responsible in its management. New accounts are eagerly sought. While, however, this is true, no well-conducted bank will blindly open an account with any person. He must be properly identified and introduced, and his character must be ascertained. Some banks will not take the accounts of persons introduced by a clerk of their own, for the reason that it is possible for him to be a confederate in some plan with the introducer to defraud the bank. The clerk might be enabled to give him a fictitious credit or in some way assist him in defrauding the institution. If, therefore, a clerk should introduce a customer, an additional introduction would also be required. If he were a merchant, the introduction of another merchant would be needful. If the applicant were not engaged in business, he might present such facts as would satisfy the cashier concerning his worthiness without further investigation. If the cashier should decide to open an account with him, he would be required to sign his name in a book kept for that purpose. All that the applicant has said concerning himself, and whatever can be found out about him afterward, is recorded in a book which has been already described.

It is not possible for the cashier to supervise the books of a bank personally, but he should look at them frequently enough to satisfy himself of their correctness. Clerks sometimes get careless and negligent, and may carry over their work from day to day, or portions of it, if they are not watched. A supervision of this kind is needed in order to maintain the best discipline. Without it, clerks too often become careless and inattentive and delay their work in various ways. A cashier should have an intimate knowledge of the theory of accounting maintained by his bank, so that when he examines any book he will be able at once to understand it. We do not suppose that every bank has such a cashier, but unquestionably it should have. Bank-booking is generally quite simple, and no very high order of ability is required to master it. Banks differ from one another in many details of doing business, but in no case are these difficult to comprehend.

CHAPTER XI.

THE PAYING TELLER.

Next in importance to the duties of the cashier are those of the paying teller. He is frequently called the first teller, and whenever the cashier is promoted, the paying teller usually succeeds to his place. It is sometimes maintained, however, that the general bookkeeper and the corresponding clerk ought to have an equally good chance for the office.

The paying teller receives a higher salary than any other clerk, and the general bookkeeper the next highest. The paying teller's salary is larger, because he is trusted with more funds, and because the responsibility put on him to scrutinize signatures and to pay money is peculiar and very great.

To him is committed the custody and disbursement of the funds of the bank. The amount of money in his keeping in a large bank may amount to several millions of dollars. In such a bank several apartments in the vault are appropriated to his exclusive use. A cashier said to the writer not long since that in his bank an average amount of two million dollars was kept. The responsibility of keeping it was too great for one man. The vault where it was kept was divided into compartments. The paying teller had three, the receiving teller one, the note teller one, the collection clerk one, the discount clerk one, and the loan clerk two, and one was assigned to the cashier. Two locks were placed on each of two of the three compartments assigned to the paying teller. The combination of one lock was known only to the cashier, and the combination of the other only to the paying teller. Consequently neither person could open the compartments without the knowledge of the other. In these compartments was kept the greater part of the reserve of the bank. In the third compartment, which had only one lock, the paying teller kept the balance of his cash, which changed from day to day, and which necessarily must be under his control. The cashier knew every combination except those of the paying teller.

The paying teller is therefore the sole guardian of his cash. Nobody ever thinks of invading his compartments; but there are times when this may be necessary. He may be taken sick, and in that event

another person must open the compartments to get the funds for carrying on the business of the bank. There are times, too, when investigations are made, annually or otherwise, all the compartments are opened, and their contents are examined. But, except on such occasions, or when fraud is suspected, the teller's compartments are not opened unless he is present. The reader can well understand why such strictness prevails. If the cashier were accustomed to going to them, if any loss should occur, it might be very difficult to trace. The paying teller, therefore, has sole charge of his compartments, and alone is responsible when losses arise.

Having unlocked his compartments, the porter assists him, if necessary, in carrying to his desk the money which is likely to be wanted during the day. His compartment is then locked, and he returns to his desk.

The different kinds of money paid by him are familiar to every one. It consists principally of United States notes and national bank notes. The former are issued by the Government, and are more frequently called "greenbacks;" the latter notes are made by the banks themselves. Then there is coin,—gold, silver—"the dollar of the daddies,"—and minor coins. Silver certificates are also paid, and less frequently gold certificates. They represent the amount of gold or silver specified on their face in the possession of the Treasury Department, and which can always be obtained by presenting these certificates to the United States Treasurer at Washington, or to any assistant treasurer. To facilitate payments, the money drawer is divided into sections which contain notes of different denominations. A package of fives contains two hundred and fifty dollars. A package of tens five hundred dollars. A package of twenties one thousand dollars. There are other packages for varying amounts. When a check is presented for the amount of any packet, it is delivered without recounting. For intermediate amounts, of course, the packets must be opened.

All payments of money are made by one teller; consequently all the exchanges sent to the Clearing-house must appear in his accounts. It may be stated here that this is composed of the checks on other banks taken on deposit, and also those which are received in letters from other banks. Formerly, it was the duty of the paying teller to receive the exchanges in the morning, and to prepare them for the Clearing-house. This, however, is now the duty of the third teller, though sometimes performed by the second or receiving teller. In the largest banks the business, of course, is more subdivided than in the smaller ones. But in all cases the exchanges, by whomsoever prepared, are charged to the first teller. On this topic more will be said hereafter.

At ten precisely (the hour is nine in some locations), the teller is ready for the business of the day, which consists in paying checks of depositors

of the bank. The object of a check is so plain, and the words used are so few that one would think there could not be much diversity in its form, but through the ingenuity of stationers and the eccentricity of bookkeepers many varieties have been produced, which, if not pleasing, display their power of invention.

Perhaps nothing should be said concerning the shape of the instrument, lest some oddly constituted mind be tempted to produce an oval, or perhaps a polygonal variety. With respect to the size of a check or draft, $8\frac{1}{2}x3\frac{1}{2}$ inches is the most convenient, giving room enough for the necessary words. There seems to be a prevailing notion that the check of one bank on another should be unusually large, though the increase of dimensions does not seem to be based on any ratio of capital. Sometimes very small banks have their New York check of the most ample proportions. Private banking houses occasionally indulge in this method of asserting their importance, and even some mercantile firms have followed at a tolerably respectful distance. The size mentioned above has been adopted by the American Bankers Association and recommended for general use to secure uniformity as nearly as possible.

Passing from their size we are bewildered by the various hues, red, orange, yellow, green, blue, indigo, and violet, with a choice variety of contrasting and non-contrasting colors. Sometimes on the small blank that is left for the numbers is printed a light impression of black, which certainly contrasts nicely with the black ink written upon it. The proper color for every business paper is a plain white with black ink; or to put the matter in the language of art, a bank check should be a simple study in black and white, however it is quite common among banks now to have their checks and drafts made on *colored safety paper* and printed in black ink. This is a safeguard which every bank would do well to adopt. The best safety paper is that with a white body and a colored wave surface; it is claimed for this paper that it has never been successfully altered. The protection afforded by its use is certainly worth several times its small additional cost over white paper.

It is in the ornamenting, however, that imagination runs riot. A very, very little is in good taste; the rest is quite out of place. Some insist on making their check an advertising medium, while that of others looks like a page taken from an illustrated weekly. On some checks words are actually printed over each other so that the deciphering is like solving a rebus. On some, we are favored with fancy vignettes of the human face divine; on others, real vignettes of human faces which are quite the reverse. Plainness and simplicity, freedom from ornamentation, and as little wording as possible, are essential elements of business paper.*

Bank checks are orders for the payment of money, and are payable

*See Underwood's Reporter, Dec. 22, 1883.

in the order of presentation, and not the order in which they are drawn. They do not constitute payment of the indebtedness for which they are given until paid, except by special agreement. Nor does the concurrent receipting of the debt for which they are given change the rule, and if they are not paid on presentation the holder may resort to the original claims for which they were given.

Checks should be dated. If they are not, and do not contain any statement when they are to be paid, they are never payable. They may be ante or post-dated, and dated also on the day of delivery. Post-dating, in the main, determines the date of payment. When post-dated on Sunday, they are payable on the following Monday. Checks post-dated, or maturing on legal holidays, should be presented the day following. When post-dated checks are paid before the dates mentioned, the money paid on them can be recovered. If blanks are left for the dates, the holders of the checks are thereby authorized to insert the true dates of delivery, but no others.

The presumption is that when checks are drawn, funds will be provided at the drawee bank to meet them; but presentation for payment must be made within a reasonable time. If not so presented the holders will be charged with any consequent loss. Where persons receiving checks and the banks on which they are drawn are in the same place, they should be presented the same day or the next after they are received. Where they are in different places the checks must be mailed to some bank or person at the place where payable before the close of the day following their receipt, and the latter must present them before the close of banking hours on the day following their receipt. No extra time will be gained by holders by depositing checks in their own banks for collection. After duly presenting them, it is also the duty of the holders, if they are not paid, to notify the drawers before the close of the next secular day following their presentation and dishonor.

No particular form of notice is required. It may be written or verbal. The principal cases in which losses occur from failure to use diligence in the collection of checks are those through failure of the banks on which they are drawn. Presentation and notice of dishonor need not be made whenever there are no funds to pay checks, and also when the banks on which they are drawn suspend payment before they can be presented by using proper diligence.

When checks are negotiable and pass by endorsement or delivery, the same degree of diligence will be required of each person to whom they are endorsed, in order to hold those endorsing them, as is required of original payees to hold original drawers of checks. But by putting checks in circulation, the liability of the drawers cannot be prolonged. They must be presented within the same time by endorsees as by payees.

The delivery of a check does not operate as an assignment of the drawer's deposit, to the amount therein specified, until it has been presented for payment. This is the rule in all the states except Illinois, Missouri, South Carolina and Texas. But if a check is drawn for the entire amount of a deposit, in equity, the check does have the effect of assigning the deposit to the payee. Yet a layman may wonder why a check given for a portion of a deposit should differ in effect from a check given for the whole. Whatever may be the reason or lack of reason for the distinction, it is the law. It follows that, in those states where a check has the effect of assigning the maker's deposit, the holder has a better title than an attaching creditor of the maker, and the bank is safe in paying over to him the amount specified in the check. But it would not be said in those states where the rule still prevails that the giving of a check does not transfer ownership of a deposit until it is presented for payment.

Who should sign the checks of corporations must be determined by state laws, by charters, by-laws, or by the usage of particular corporations. Every partner has the right to sign his firm's name to checks unless prohibited by its articles of copartnership. So also can agents sign them, when they are given express or implied authority.

As a check is the depositor's order or direction concerning the payment of his money, it should be signed in proper form. A depositor ought to sign his name in the same manner always, so that the paying teller can become familiar with it and thereby lessen his risk of paying forged check. We knew a person having a long name, who had not the patience to sign more than about half of it, and usually with a lead pencil. He was a very large depositor and the bank honored his checks. Furthermore, his writing was so peculiar that it would have been especially difficult to forge his name. But when he came to the bank the checks that had been presented and paid were always given to him for the completion of his signature. Occasionally he would demur, but the bank was inexorable and insisted that he must do this for its own protection. Signatures to checks must be written with pen and ink or pencil; they may also be printed or stamped. Sometimes the representatives of corporations are neglectful to draw them in proper form. The proper way is to sign the name of the corporation, for example, "Atlantic Printing Company, by John Smith, Treasurer." In other words, the company name should be signed, so that the bank officer may know to whom it should be charged, and then the name and the office of the person signing that of the company. For a person simply to sign himself treasurer or agent, signifies nothing, and even if a bank understood the meaning of the signature, it would be defective and ought not to be permitted. We suppose, however, that there are cases in which checks are signed in this short

method, the bank on which they are drawn understanding the significance of the signature.

In a large bank a paying teller has but little time to look at signatures, and his task therefore is a most responsible one. The wonder is that more forged checks are not presented and passed through his hands. Considering the large number of checks annually presented to the different banks of the country for payment, the number of forgeries is not very great.

Sometimes some designation is added to a man's name, as agent, treasurer, trustee. In one of the cases that arose for discussion the signer added Tr. The court remarked that the addition of such words without a more specific description of their significance are meaningless, and the checks as given simply by a person individually. The words are merely an additional description of the signer's character, nothing more.

As usually drawn, checks payable to persons who are named, or order, are negotiable. A valuable consideration for them will be presumed. They may be transferred by endorsement, or, if payable to bearer, by mere delivery. And defenses to them existing between the original parties cannot be raised against subsequent holders. It is a good rule when drawing a check on a bank or banker to make it payable to the order of an individual, firm or institution, as the case may be. By this means the drawer is saved from the risk of loss, in case the holder of the check loses it—a risk that is run by all holders of checks payable to bearer.

A great variety of checks are drawn and presented for payment. Every check requires more or less examination. One of the most common defects is the lack of a proper endorsement. Checks are not infrequently given to persons who know but little about such matters, and who forget to fulfill this requisite, or who, perhaps, are ignorant of the fact that a check is made payable to their order. Sometimes checks are post-dated, and are presented for payment before the time fixed by the drawers. Sometimes the dates are altered, and the teller must be satisfied whether the alteration is material or not. Sometimes a check is drawn for a larger amount than the depositor may have on hand, or the paying teller may think so, and it is necessary for him to ask the bookkeeper what the balance of the depositor's account may be before paying it. Many irregularities and delays and inquiries may arise besides those mentioned.

All checks that have passed the paying teller's examination are given to a clerk for entry on his check list, and are charged to their respective accounts in the ledger, except by those banks which use the New York or Boston system of ledgers, to be hereafter explained, in which the check list is not used.

In paying checks a teller must think of three things: First, is

the signature and body of the check genuine; second, is the account of the drawer good; and, third, is the person presenting the check entitled to receive the money. The paying teller must also satisfy himself concerning the genuineness of the endorsement on every check presented for payment.

As is well known a bank is responsible that pays the check of a depositor not signed by him, but which purported to have been. This rule is founded on justice, though it is often costly to banking institutions. When a depositor confides his money to the keeping of a bank, it expects that payment will be made only on his order. There is no third person or intermediary that can act as his protector. It is wholly within the bank's possession. It has become his debtor for the amount, and it is responsible to him therefor. Consequently, whenever a mistake is made, it must pay again.

So, too, if a check has been altered, it is responsible, for it disregards the original order. The maker says to the bank originally, pay my check so and so, and if an alteration has been made, which is not infrequent, in raising the amount, the check is then not the order given by the maker, and if the bank pays must lose. Many alterations are made with so much care as to defy detection until after the most minute inquiry. Names, dates and amounts are often changed. An illustration or two may be given. A person in New York named Crawford left a check with his bookkeeper that was post-dated telling him when the day arrived to draw the money from the bank and use it for a specified purpose. The bookkeeper changed the date to one day earlier, drew the money on that date and departed for parts unknown. Crawford then sued the bank for the amount of the check and sought to recover on the ground that it had not fulfilled his order, but had paid the amount one day earlier. The bank contended that if the bookkeeper had waited one day longer and drawn the amount and then ran away, the maker's loss would have been the same. He assented to this, but replied that the check actually paid was not the one drawn by him, therefore the bank must stand the loss. The court decided that "in disbursing the customer's funds, it can pay them only in the usual course of business, and in conformity to his directions. In debiting his account it is not entitled to charge any payment except those made at the time when, to the person whom, and for the amount authorized by him. * * * The bank is from necessity responsible for any omission to discover the original terms and conditions of a check, once properly drawn upon it, because at the time of payment, it is the only party interested in protecting its integrity, who has the opportunity of inspection, and it therefore owes the duty to its depositors of guarding the fund intrusted to it from spoliation. * * * The liability of the banker, however, for a

loss occasioned by neglect to exercise such vigilance, is confined to the maker alone."

This principle has a broad application. It applies to all checks raised that are paid by a bank. It is responsible for the loss, the difference between the amount authorized to be paid and the amount actually paid, because the maker has limited his authority to the smaller amount. Whether it is feasible or proper to make any regulation on the subject of raised checks is a question well worth consideration.

There is, however, one qualification. The maker of a check must be careful to prepare it in such a manner as to make an alteration difficult. If, for example, a person wrote twenty-five, and left a long space between five and dollars so that hundred could easily be added, and especially if he omitted to put in the figures below, such a check would be negligently made; and if some person, to whom it was transferred, should increase the amount, a bank would not be held for the excess paid.

Again, if a space was left after a name so that a person could easily write bearer and thus secure its circulation without indorsement, and the maker should suffer in consequence, he could not blame the bank for paying such a check. Banks are often careless in not remonstrating with their customers on their loose ways of drawing checks. In truth, they could, by using proper tact, do far more than they are in the habit of doing in requiring their customers to exercise more care, without offending them. They could show that all precautions pertaining to the proper mode of filling up checks, notes and the like are for their own security as well as for that of the bank, and a customer, instead of disliking suggestions coming from such a source and intended for his good, ought to be grateful for them, and doubtless would be.

Many forged checks are presented and paid. It is one of the terrors of banking. All kinds of devices have been invented for preventing forgeries. Various kinds of paper have been tried. The use of green ink on the United States and national bank notes was to render their forgery more difficult. And indeed it has proved one of the most effective of preventives. Private marks in signatures are sometimes used. This must be said, however, concerning them: If a forger finds out what the private mark is and successfully counterfeits it, the paying teller is more likely to be deceived than he would be if no such mark were employed.

One of the universal precautions observed by banks to prevent forgeries is to require every depositor to write his name in a signature book or upon a signature card. With this the paying teller compares doubtful signatures. Every drawer should always sign his name in the same manner, or, if varying it, should acquaint the paying teller with the variation.

Sometimes a bank pays a check on which the name of an endorser has been forged, and the amount is charged up to the maker's account. When this happens the bank must make restitution. One of the most prominent cases of the kind in this country happened many years ago in New York between a bank in Albany and one in that vicinity. The bank of Albany received a draft payable to the order of B through several successive endorsements, B's name appearing first among the number. The Bank of Albany received it from the last endorsee and without disclosing his name presented it to the Canal Bank, on which it was drawn, which paid the amount. Afterward the Canal Bank ascertained that B's name was a forgery and having notified the Bank of Albany of this fact, it sued to recover the money. The court decided that though it had been innocent of intended wrong, yet having obtained the money of the Canal Bank on a check with an imperfect title it must refund the amount. Moreover, it was required to do this notwithstanding the delay of over two months before giving notice of the forgery after the Bank of Albany had received the money and sent the same to the person from whom the check had been received. Several principles of great importance were decided in this case, and may be briefly stated. First, only the payee can assert a title to a bill or note payable to order without his endorsement; second, if one accept a draft in the hands of a bona fide holder he will not be allowed to dispute the genuineness of the drawer's signature, though he may that of the endorsers, and payment operates in this respect the same as on acceptance; third, when the drawee of a draft has paid it to an innocent holder on the faith of a forged endorsement, mere lapse of time, however long, between the payment and the notice of the forgery will not deprive him of the right of recovering his money provided he has incurred no unreasonable delay to recover it after discovering the forgery; fourth, when several successive endorsers have advanced money on a draft payable to order and it turns out that neither had a title, because the first endorsement was a forgery, he may recover from his immediate endorser.

A banking firm in San Francisco have the following rules printed on the inside of the front cover of their check books in order to impress on their customers the importance of using every precaution against fraudulent alterations or forgery of checks:

GUARD AGAINST FRAUD!

Draw all your checks from your own book.

Number your checks in regular succession.

Write plainly. Use plenty of good black ink, and allow it to penetrate the fiber of the paper before blotting.

Begin writing and figures close to left-hand margin, and leave no space for additions or alterations.

See that the figures correspond with the body of the check, and that dollars are plainly separated from cents thus: $\$100\frac{75}{100}$ or $\$100\frac{\sim}{100}$

Keep this check book in your safe when not in use.

Deposit your pass book regularly for monthly settlement.*

To guard more perfectly against raising the amount the following form of a check is proposed:

90 | 80 | 70 | 60 | 50 | 40 | 30 | 20 |	1,500
	1,400
	1,300
*No.*_____ *Philadelphia,*_____ *189*__	1,200
	1,100
	1,000
ARCTIC NATIONAL BANK.	900
	800
	700
*Pay to the order of*_____ $\$$_____	600
	500
	400
_____ *Dollars.*	300
	200
	100
_____	00

This form of check is in use in Germany. They might be prepared in several ways, both with reference to the amounts and to cutting off the part that is to be removed.

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*The banks in Philadelphia print the following "Card" in the inside cover of their pass books:

ARCTIC NATIONAL BANK.

You are requested to make your deposits in the bank AS EARLY IN THE DAY AS YOU CONVENIENTLY CAN.

IT IS RECOMMENDED, for your safety and protection, that you have ONE PARTICULAR PERSON to do your business at the bank, who shall be competent to take charge of the money and papers you entrust to his care, and sufficiently intelligent to understand and properly deliver the messages and explanations you may have occasion to send. Also,

That you write, or stamp, OVER YOUR ENDORSEMENT, upon all checks which you send to be deposited to your credit in bank, the words, "PAY TO THE ORDER OF ARCTIC NATIONAL BANK," which will prevent their being used for any other purpose.

IT IS RECOMMENDED, that you keep a regular check book, and not suffer it to be seen or examined by those who have no right so to do—that you do not draw a check upon the bank except it be taken from YOUR OWN CHECK BOOK—that you draw AS FEW CHECKS AS POSSIBLE—and that when you have several small sums to pay away, you draw ONE CHECK for the whole, and take such notes and coins as will enable you to distribute the amount among those you intend it for. DO NOT GIVE YOUR CHECK TO STRANGERS.

In case you should have a form of check engraved or printed for your own special use, it is recommended that you carefully keep the engraved plate in your own custody, and see that you obtain EVERY IMPRESSION of the check which is made from the plate or the type.

It is desired that all your checks for large amounts should be pre-

The second inquiry is, has the drawer a sufficient deposit to pay the check. In every large bank several hundred depositors transact business with it. They have various times and methods of depositing. Some draw many checks daily, and some only a few, or at rare intervals. The deposits of a bank, therefore, are constantly varying in amount. How then can a paying teller recall the condition of every depositor's account?

We cannot describe how a paying teller performs this important part of his work any better than Gibbons has done. By carefully examining the deposits and checks of a dealer, it is easy to judge whether they are the proper returns from his business, or whether they are mostly transfers between different persons and accounts; also to what extent his balances are maintained by loans and transient accommodations. It is not difficult to ascertain whether a man uses his credit excessively or with prudence; nor to get information of his personal habits, associations, and general character. The contact of the teller with merchants in all branches of trade affords many opportunities of inquiry which, with those in possession of the bank officers, enable him to classify the dealers, and thus to assist his memory.

In the first class stand those of known large capital, who never give out their own notes. They may sell on credit, but they always buy for cash. Their deposits in bank are generally far greater than their immediate wants. When their checks are presented, the teller

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sented for payment by a person known to the paying teller or the officers of the bank.

IT IS PARTICULARLY REQUESTED, in case you desire to preserve your CANCELED CHECKS, that you will IMMEDIATELY DEFACE OR MUTILATE YOUR SIGNATURES, in such manner as will PREVENT THEIR BEING COPIED; and that, afterwards, you will put the checks away so carefully that no one else can get possession of them.

Attention to these recommendations and suggestions will go far to secure YOU and THE BANK from ERRORS and LOSSES.

NOTICE.

In conformity with the rules adopted by ALL THE BANKS OF THIS CITY, members of the Clearing-House Association, you are hereby notified that you are held responsible as endorser for the non-payment of all CHECKS upon other banks of this city, members of said Association, deposited by you as CASH in this bank, until the close of the business day next succeeding that on which such checks are deposited,—this bank receiving such checks ONLY FOR COLLECTION ON YOUR ACCOUNT through the exchanges at the Clearing-House. Upon all other checks and drafts deposited by you as cash, your responsibility as endorser continues until payment has been ascertained by this bank. All notes, drafts, checks, coupons or acceptances, discounted or received for collection, or as cash, which are payable at points outside of this Clearing-House, will be received upon this condition: that this bank is responsible only for good faith and due care in the selection of such other banks or agencies as are employed for the collection of such items.

may safely pay them without reference to the condition of their accounts; for if they should even appear overdrawn at the moment, he knows that they will make an ample deposit before the close of the day. In addition to this, they are likely to have a considerable amount of promissory notes lodged in the bank for collection, which are collateral security.

The middle class of dealers are the most numerous. Less independent with regard to capital, and relying on the bank for loans, they are yet generally safe and trustworthy. They will not transgress its rules, lest they forfeit its confidence. The teller pays their checks commonly without examining their accounts, depending on their integrity and self-interest to rectify possible errors by overdraft or otherwise.

Next come the retail shopkeepers, mechanics and small manufacturers. Many of this class keep accumulating accounts, and seldom call for loans; or if so, to a very moderate extent. Separately, their deposits are not large, but in the aggregate, they add materially to the loaning facilities of the bank. They draw but few checks, and their accounts are not liable to sudden changes. The teller soon acquires such a knowledge of them as to remember which need watching; and the bookkeepers aid him in this by an alphabetical list of balances. An old bank gradually expurgates its ledgers of troublesome accounts, while a new bank, from competition for business, or non-acquaintance with the character of dealers, is likely to fall heir to them.

By these precautions the paying teller is able to tell what checks ought to be paid and what ought not to be. Now and then an overpayment is made, but rarely. But a method of getting money from a bank is sometimes practiced, which though illegal is successful. Two persons who keep accounts in different banks may exchange checks, and each person deposits the check of the other. Afterward, they draw out money on their own checks. Of course, if the checks originally given were paid, no loss would ensue to either bank, but in case they are not paid, the banks lose. When a check is thus deposited, if the deposit teller should have any doubt concerning the payment of it, he would inform the paying teller of the fact, and that eventually when the depositor presented his check for payment he would get no money. Such a thing would not happen with a new depositor, for a bank would not be likely to pay out money when it had received none. But when a person has been depositing for a considerable time, if he should thus slip in the check of another, the payment of which was doubtful or impossible, he might be able to check against it and in that way defraud the bank. This process of exchanging checks and drawing against them is called "kiting," and the persons who practice it are regarded dangerous by a bank. No one would be likely to succeed a

second time with the same institution; indeed, when a person is detected of doing it, his account is closed, and the bank refuses to have further dealings with him.

Merchants in distant cities usually make their notes payable in a New York City bank and remit the money to pay them previous to their maturing. These remittances contain a letter of instruction which is delivered to the paying teller, who pays the obligation when it is presented. After canceling it, the note is returned to the person who sent the money.

What shall the paying teller do when a check is presented for payment and the deposit is insufficient to pay it? Shall he pay as much as he can and endorse the amount on the check and return it to the presentor? This practice has secured judicial sanction, but it is not the general one. If the presentor says to the paying teller, "give me what you have; I will deliver you the check," then he can safely pay whatever balance he may have. A more common practice perhaps is for the presentor to find out what amount is lacking in the bank to pay the check, to deposit that amount, and then present his check; but the result is the same, taking the depositor's balance and surrendering the check.

A more difficult question arises when a number of checks are presented to a bank through the clearing-house. The messenger returns with the checks drawn on his bank, and in examining those drawn by A it is found that he has overdrawn his account. Suppose there are six checks and money enough in the bank to pay two of them and a part of another. What shall be done? There are two ways at least of disposing of these checks. One is to return them to the bank to which they belong. When this course is taken, the bank receiving its check first, if equidistant from the drawee bank to some other, has the best chance of presenting it earliest and getting its money. If the checks are delivered in the order of their arrangement when received, the bank furthest off might be the first to send its check back and make a re-presentation for payment. This is a proper matter for clearing-house regulation. The rule has been established by some of them, that when all the checks of a maker that are thus presented at the same time through the clearing-house which cannot be paid in full, a pro rata amount shall be paid on all. This is a fair way of treating all, but what shall the bank demand as security for the money paid? It needs some receipt or authority for its payments. It can require a bond of indemnity, the delivery of the checks, or some kind of security, to satisfy the depositor, or, in the event of his failure, to satisfy his assignee or other representative. A bank's action in such cases might be regulated in advance and stated in the pass book given to depositors.

The paying teller must be assured that the presentor of a check

is entitled to the money. To that end the holder of an endorsed check must be identified. Persons who hold such checks when presenting them for payment are often surprised to learn that identification is necessary. A check drawn "payable to bearer" requires no identification, and if a bank should pay it, in no event would it be the loser; but if it should pay a check payable to order to the wrong person, then it would be required to pay a second time. It is to guard against payment to the wrong person that checks are drawn payable to order. It is a form of security which should not be omitted. Even if a check should be lost or stolen, and the endorsement of the person to whose order it was payable was forged, and payment was demanded and made, the bank would be required to pay a second time to the rightful owner of the check. As this is the law, banks cannot exercise too much care in paying checks to the persons who are entitled to the money, and no one can reasonably complain if the utmost precaution is observed in making needful inquiries concerning those who present checks for payment. Nevertheless, such inquiries are sometimes vexatious and annoying. It is not always easy to find a person who is willing to go to the bank, or who can, to identify the check-holder.*

Endorsed checks paid to the clearing-house are regarded as guaranteed by the bank from which they come. Any bank will guarantee the endorsement of a dealer who is well known to it.

In paying checks banks usually insist on the endorsement of the presentor, whether the check is made payable to order or bearer. The question has sometimes been asked whether, if the presentor of a check payable to order declines to endorse it, the paying teller can insist that he must do so before paying. Strictly speaking, if the pre-

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*An Englishman from the West Indies landed in New York city having no money except a draft for £200 on a New York bank. Anxious to get a train for St. Louis the same day he hurried to the bank for his money. The teller refused to pay the draft until he was identified.

And the young man was an absolute stranger in New York!

"Your people in the West Indies took my good money for that draft and I want it back again. Am I to infer that this is a bankrupt institution?"

He got no satisfaction, lost his train and had to pawn his watch for a meal and a bed. A fellow passenger identified him the next day. Nothing looks more ridiculous to a London mercantile man than to see a long row of persons with books in their hands waiting to make a deposit through a cubby hole with a solitary receiving teller, or to receive payment of money. A bank with a large business ought to have half a dozen receiving and as many paying tellers at large, wide, open counters. Why all these cages and railings and bars and peep holes through which you are occasionally permitted to catch a glimpse of the teller's nose who suddenly and unwillingly hands you your money? They don't have these things in England, and robberies in banks are rare. Here, despite all these precautions, they are frequent.

sentor is unwilling to comply with this request, the paying teller must honor the check, for as it is payable to a given person, or his order, if the person thus named presents it, or some other whom he has designated, the bank must comply with the direction. The presentor's refusal is so rare that perhaps a paying teller has some reason for suspecting that there is something wrong about the check and if he has, he ought to exercise more caution before paying it. Having done this and finding nothing wrong, he must comply with the presentor's order. The endorsement on the check is an excellent receipt to the bank as well as to the maker of the payment of the money, and for that reason a bank should always endeavor to secure the endorsement of the presentor, and this request is so reasonable that only on rare occasions does anyone refuse to comply. And for the same reason the paying teller should insist on the endorsement of a check payable to bearer. Its history then becomes complete.

Sometimes a check is presented imperfectly endorsed. Perhaps an endorsement is lacking, or some other defect in order to make the title good. As the paying teller is without proper authority to pay it, What shall he do? If he should say to the presentor, "you must return this check and get the proper endorsement," it may be that the presentor would run the risk of not getting his money at all, for during the interval of securing the endorsement the maker might fail. The correct thing is for the presentor to ask the paying teller to set aside the amount specified until it comes around again in proper form, and he can do this in the regular way by certifying the check, for when a check is certified the amount is charged to the drawer and the fund is set aside to answer the check whenever it shall be presented for payment. The certification, however, should not be drawn in the usual manner. An adequate form is: "Good when properly endorsed," which will secure the presentor against loss in consequence of the failure of the maker while the check is sent back for the missing link.

The death of the drawer works the revocation of any check he may have made that has not been presented. This is the rule in most states. In Massachusetts, however, by statute a bank has authority to pay it. A bank is always protected in paying a check after the drawer's death if ignorant of the event. When his death is known, it should have the authority of the executor or administrator to pay as the funds in the bank immediately on the death of the drawer by law pass to that individual. It would be well if a statute on the subject existed in every state; and the matter is a proper one for regulation between banks and their customers.

In paying checks drawn by executors and trustees, it is usually said that if there be two or more, either of them can sign a check which the bank is justified in paying. Yet this ought not to be. The

very object of appointing two executors or two trustees is joint action, and in the payment of money especially banks ought not to disregard this purpose. If they were strenuous in requiring both executors to sign checks, the requirement would not be unreasonable. In some cases courts have held that both trustees of an estate must sign checks, and in our judgment the rule should extend to executors; in short, to all persons who act in a trust capacity. We are constantly learning of the wrongdoings of executors, and banks should do their part in exacting more of them. Every requirement tending to greater strictness in the execution of their trusts is for the benefit of those for whom they act.

Very often stale checks are presented for payment. A person may carry one around in his pocketbook several days or weeks before presentation. Nevertheless, it is a valid obligation and must be paid. Their holders, however, should remember that they cannot continue the liability of the drawers during the period of delay. It is the duty of every holder of a check living in the town where the drawee bank is located to present the same on the day it is received, or the next, for payment, and if he forgets to do so, or it is not convenient for him to comply with this well-established rule, his check is indeed valid, but he cannot hold the drawer for the amount, but only the drawee bank. And this rule accords with good sense. The maker of a check gives the receiver an order on a bank for money due to him, which he accepts. If he declines to accept the check he has a right to do this, and demand the money in payment, but if he accepts, then he has a clear duty to perform to present the check within two days after receiving it. This duty the law presumes or implies he will perform. If he does not, and keeps the check longer, he does so at his own risk, and should the bank fail, he has no right in justice or law to ask the maker to send another check for the amount, or to pay him the money.

There are many nice questions concerning the duty of a paying teller when a check has been kept for a considerable period. The maker ought in every case of a check that has not appeared within a reasonable time to make inquiry concerning it, or perhaps notify the teller that he has one outstanding given on such a date and specify the amount. Such a notice would relieve him very much when, after a long delay, a check was presented answering to the maker's description.

In law, there is no contract between a drawee bank and the presentor of a check whereby it can compel him to demand payment, except in Illinois, Kentucky, Missouri, and South Carolina, but there is a contract between every bank and its depositor to honor his checks; and if this is not fulfilled, and any loss happens to a depositor in consequence of his bank's neglect, it is responsible. Every now and then a bank makes a mistake in bookkeeping whereby the balance of a

depositor is struck too low; and when a check is presented for payment the bank, not having enough money, returns it to the holder. In such a case the depositor has a right to proceed against the bank to recover whatever injury his credit may have sustained by its action, though it may have been unintentional.

On the other hand, a paying teller must not pay any checks except on the order of the maker. If he does not follow this well-known rule, if he pays one that has been altered in the date, amount, or otherwise, whereby the maker sustains loss, he can look to the bank for indemnity. When, therefore, a check is presented several weeks or months after it was given, while it may be genuine there is always a fear that it may not be travelling in its proper course, and ought not to be paid. No rule can be prescribed to govern a paying teller in such cases, and he must exercise his own best judgment with reference to paying them. But a regulation might be made and thus relieve the paying teller from all doubt concerning his duty.

Drawers sometimes direct that checks which they have given be not paid on presentation. As a check on a bank is an order for the payment of money belonging to the drawer, he has the right to revoke it, and if such a revocation is given, and the bank does nevertheless pay, it assumes a new risk. It is therefore very important to keep a record of the checks whose payment has been stopped. Books are prepared for this purpose, one for each ledger, and arranged alphabetically, so that the dealer's page may be referred to as quickly as possible. The direction to stop payment must be in writing, and all the particulars concerning the check on which payment has been stopped must be carefully entered with full extracts from the letter giving directions to the bank concerning the matter. Some banks have a form which they send to their dealers to be filled out when they wish to stop the payment of a check.

As soon as payment has been stopped, the notice is sent to the paying teller. He examines it, and puts his initial on it, and turns it over to the bookkeeper, who records the fact. He is the person to watch the matter, because he has the record. When exchanges come from the clearing-house, he compares them with the stop list after they have been arranged alphabetically, and runs them over, and can speedily determine whether any check has been stopped. In some banks as soon as a check of this kind appears, he takes it immediately to the cashier. Nothing important is done without his action.

In all places where clearing-houses exist, many checks are presented and paid through this agency. The payment of them is also a part of the duty of the paying teller. About half-past ten the exchanges from the clearing-house are brought in by the messenger. If the paying teller examined the checks received he would be obliged to neglect other work, for they frequently amount to several millions.

Three men are often sent by a bank to the clearing-house. One man, a messenger, carries the exchanges, another guards him, and the third is the settling clerk. The settling clerk sits at a desk assigned to him. The messengers start one after another in the manner fully explained in the latter part of this work. The settling clerk receives the envelopes containing the checks on his bank from the messengers of other banks as they are passed in to him. He keeps these in a certain order, and enters the amount from each bank in the appropriate place in a statement prepared for that purpose. As soon as the proof is made the balances are struck, and the messenger and assistant return to the bank. The settling clerk remains to make the final proof, and then he returns. The messengers bring with them the record of the balance, which is generally correct. Sometimes, but not often, a small variation is discovered after further examination, which is always made.

When the debit exchange is thus received it must be carefully examined. From what has been said already the reader will understand that it consists of checks drawn on the bank to which it has been returned. The signature, endorsement, and whatever peculiarity a check may possess, must be examined before charging it to the drawer. This work is done during the intervals of other business, and not so much haste is required in completing it as in preparing the credit exchange for the clearing-house, because that must be there by ten o'clock, otherwise a bank is fined for tardiness.

The assistant bookkeepers check out the exchanges, though this work is sometimes done by the bookkeepers who post them in their ledgers, and bring the totals of their postings to the paying teller, who compares the record with the amount brought from the clearing-house, which must be the same.

Having now considered the duties of a paying teller with respect to preparing his exchanges, we proceed to consider another very important function performed by him, namely, the certifying of checks.

This consists in writing or stamping on a check words to the effect that it is "good," which signify that it will be paid on presentation.

When a depositor has enough money in the bank to pay the check presented for certification, the duty of the paying teller is a very simple one; he will not hesitate to certify such a check. Requests of this kind are often made in order to render a check more negotiable. A person, for example, may be unwilling to receive a check if drawn in the ordinary manner; but if certified by the bank on which it is drawn, no one will hesitate to receive it.

The paying teller is often asked to certify checks for a much larger sum than the drawer may have on deposit, and the question then arises, "Shall I grant or refuse the request?" This is often a very delicate question with him. When observing the national banking law

his duty is very plain, for he is not permitted to certify beyond the amount which the depositor may have in the bank. Under the state bank system, however, no such regulation prevails.

Whenever the request is made the drawer expects to make deficiency good within a short time, generally before the close of the day. The paying teller is given a very wide latitude in granting or declining these requests. Usually he acts on his own authority, though, of course, there is nothing to prevent him from getting the opinion of the cashier or president. In all cases the question is decided very quickly. If the person asking for the favor is an old customer, and has always been prompt in fulfilling his engagements, and whose account is a large and desirable one, the paying teller would not hesitate to certify. If he were a new dealer, and not well known to the paying teller, he would refuse. A good authority says, "The discretion of the teller in certifying checks is for the most part independent of his superior officers, and they are averse to interfering with it. In doubtful cases he refers to them for special instruction. Dealers apply to them also to reverse his judgment, but not often with success. Either of them would be likely to answer, 'The teller understands his business better than I do.' Such is the influence acquired by a competent and judicious clerk in this post that he obtains a degree of respect of the customers of the bank a little less than is accorded the president or cashier."

In paying a note or acceptance to a bank or banker, instead of drawing bank notes for the amount, the payer should request the paying teller of the bank in which his funds are deposited to certify that his check is good for the amount, and hand it to the bank or banker who holds the note or acceptance. The check in all cases should be made payable to his or their order for the amount of the same.

In the absence of the paying teller the receiving teller occupies the place, and the same authority to certify.

Certified checks are generally returned in the debit exchange on the following day through the clearing-house. But very often they are remitted to other places and do not appear for redemption for a considerable time. They are charged, however, to the drawers immediately, for certification is regarded equivalent to payment.

The city banks have a book in which these are recorded. The aggregate is posted to the credit of an account called "Certified Checks," which is balanced by the separate charges as the checks come in. When the checks are paid they are entered on the debit side of this account; consequently it always shows the balance of certified checks outstanding. Formerly the dealer's ledger account was not charged with such checks until they were received for payment. They might be out so long as to be forgotten by the teller and the bookkeeper, and it was not difficult to practice a fraud on a bank by checking out de-

posits to such an extent as to leave an insufficient sum for the redemption of a certified check when presented. The losses to which the old methods gave rise led to the adoption of the existing plan of posting certifications.

The effect of certifying has often been declared by the courts. Perhaps the remarks of the United States Supreme Court on this subject are as weighty as those of any tribunal. In an important case before the United States Supreme Court, Judge Swayne remarked that "the certificate of a bank that a check is 'good' is equivalent to acceptance. It implies that the check is drawn upon sufficient funds in the hands of the drawee, that they have been set apart for its satisfaction, and that they shall be so applied whenever the check is presented for payment. It is an undertaking that the check is good and shall continue good, and this agreement is as binding on the bank as its notes of circulation, a certificate of deposit payable to the order of the depositor, or any other obligation it can assume. The object of certifying a check, as regards both parties, is to enable the holder to use it as money. The transferee takes it with the same readiness and sense of security that he would take the notes of the bank. It is available also to him for all the purposes of money. Thus it continues to perform its important functions, until in the course of business it goes back to the bank for the redemption and is extinguished by payment." By doing this the maker is immediately relieved and the bank becomes the primary debtor to the holder of the check.

Some important questions have arisen concerning the effect of subsequent inquiries to the officers of banks who have given such certifications. Suppose the holder of a certified check presents the same to a paying teller and asks, "Is it good?" and he replies, "yes," what is the purport of the answer? The answer given by the highest court of New York is that he guarantees the genuineness of the drawer's signature, but does not bind the bank for the amount specified, or that the check has not been raised or otherwise altered. This rule, settled after much discussion, we venture to criticise as very loose and contrary to the general opinion. When a check is certified, the amount is charged to the depositor and a proper entry is made of the transaction. The paying teller should compare the check with this entry, and by so doing he would know whether it had been raised during the interval of certification or not. To this extent therefore a bank ought to be held by the inquiry.

But it would not be reasonable to hold a bank for the amount certified in the beginning, because it does not know at the time.

The relation between the holder of a check, unless this is by the maker and the bank on which it is drawn, is very different from the relation between the maker and the bank. As between these two it is the duty of a bank to guard against all alterations, and is liable to

him if paying more than the amount specified in his check. It is, however, under no such rule or liability to the holder. If then he should present a raised check and it should be certified and afterward paid, the bank could recover the excess from him unless there was some negligence on its part in certifying, or in paying the same. The maker, it will be seen, is protected in any event from loss by the action of the bank, but the holder might be the loser notwithstanding the bank's certification of its correctness.*

In Philadelphia banks certify no checks, but whenever a depositor wishes to give more credit to his check than can be conveyed by his own signature, he gives his check for the amount desired and asks the bank for a due bill, which is the bank's order on itself for the amount signed by the paying teller and countersigned by the cashier, or other officer, and is paid the next day through the clearing-house. The following is the form of the due bill:

No. CLEARING HOUSE DUE BILL.

....*BANK.*

Philadelphia,.. ..... *189* .

Due by.....*Bank,*

To ....

. .....*Thousand*

....*Hundred and*..... ..... $\frac{}{100}$ *Dollars.*

COUNTERSIGNED.

This Due Bill is valid only when signed by one, and countersigned by another authorized person, and is payable only in the Exchanges through the Clearing House the day after issue.

$ $\frac{}{100}$ *Teller.*

This obviates many of the difficulties surrounding certified checks. A little more time is required to make one than in simply certifying checks that are presented for the purpose, and it may be that a few banks, which do a very large business in certifying, would find this practice too slow for them, but it certainly could be used to advantage by perhaps all the banks in the country except half a dozen. Even these could employ additional help and dispense with the present method, which has given rise to so much dissatisfaction. The due bill given by the bank is always a genuine, bona fide instrument. If it is afterwards raised, that is an affair between the bank and the holder with which the maker has no concern. The situation is much simpler by giving a due bill, and this practice ought to find favor with

*For the origin of the practice of certifying checks, see Bolles' Financial Hist. of U. S. from 1861 to 1885, note page 365.

the banks everywhere. For out-of-town circulation a draft is given, or a certificate of deposit.

When the checks of a depositor have been paid and his pass book has been balanced and returned to him, he should at the earliest moment examine his checks for the purpose of ascertaining whether they are correct in amounts and in all other respects. The liability of a bank for mistakes has grown with the increase in modern business, as it is often necessary for men, even in matters which are of the most confidential nature, to intrust them to others, even to the making and endorsing of checks. Every now and then a confidential clerk takes advantage of his situation to abuse his trust and to make and endorse checks for his own benefit. Unhappily, the banks in many cases have been held responsible for his conduct. Two different rules prevail on the subject of a bank's liability, and both are highly important and should be stated. One of them is the federal rule, which was declared in the following case: A man named Cooper had a confidential clerk, Berlin, who deposited his checks, and took care generally of his money matters. After a time Cooper found that his bank account was much smaller than he supposed it to be; and on examining his checks he discovered that Berlin had been manipulating them to his own personal advantage. Cooper then sued to recover "the balance alleged to be due on his deposit account." His bookkeeper had filled up all the checks drawn thereon and entered them in a book kept for that purpose. Some of these were altered by Berlin "with great care," in the language of the finding in the case, and could not be detected without very careful scrutiny, or a very close examination. The bank paid the "full raised amount" of the checks. Berlin paid Cooper the original amount and kept and applied the balance for gambling. In delivering the opinion of the court Judge Harlan said "there was evidence tending to show—we do not say beyond controversy—that Cooper failed to exercise that degree of care which, under all the circumstances, it was his duty to do; he knew of the custom of the defendant to balance the pass books of its depositors and return their checks 'as vouchers' for payments; yet he did not examine his pass book and vouchers to see whether there were any errors in the account to his prejudice, and, therefore, he could give no notice of any. Of course, if the defendant's officers, before paying the altered checks, could by proper care and skill have detected the forgeries, then it cannot receive a credit for the amount of those checks, even if the depositor omitted all examination of his account. But if by such care and skill they could not have discovered the forgeries, then the only person unconnected with the forgeries who had the means of detecting them was Cooper himself."

The New York principle is very different, and one of the cases may be described in which it was applied. "Welsh, a commission merchant,

had a bookkeeper, who had charge of his produce and bank books. The bookkeeper presented fictitious accounts of sale of the property of a customer to his employer, and also checks for him to sign. These were payable to the order of the customer, and were delivered to the bookkeeper. He forged the customer's endorsement and put them in circulation. They were paid by the bank, charged in Welsh's cash book, and returned with the other vouchers to the bookkeeper balancing the account, which was done monthly. Welsh did not discover the fraud or the forgeries for several months, but as soon as he did the bank was notified. In an action to recover the balance of his deposit it was held that the deceiving of him, whereby he gave the checks to his bookkeeper, did not make him responsible for the subsequent fraud on the bank, as his act in a legal sense did not contribute to that event, that he was not precluded from disputing the right of the bank to charge the checks to his account because of the entry in the pass books, their return with the vouchers, and the retaining of them without objection, and that he could recover."

This principle is certainly very harsh, and the rule laid down by the United States Supreme Court will doubtless find more favor among thoughtful persons. A depositor has some duties to perform in these matters which he ought not to be permitted to delegate, even to a confidential clerk; and if they are delegated, he should be willing to accept the consequences. It is too much to require a bank to be responsible for the conduct of the confidential clerk of a depositor. In states where this is the law, its severity might be lessened by putting a regulation in depositors' pass books requiring them to examine their checks within a fixed number of days after their return and to give notice of any mistake or alternations, and if not doing so, unless prevented by sickness or other accident, relieving the bank from further responsibility.

Some banks relieve themselves from this liability by sending a postal card to their depositors, or giving it to them with their book, requesting them to make such an examination and inform them of the result. The following is the form of card sent by some banks to their depositors. This is an excellent practice, and is worthy of general imitation:

21409

The Girard Life Insurance, Annuity and Trust Co.,
OF PHILADELPHIA.

Dear Sirs:

.....have examined.....bank book with canceled checks, settled to ..... and find the same to be correct. Yours truly,

.....189 .....

Please Sign and Return.

It is a general principle that money paid by mistake can be recovered back, yet the payment of forged paper has long formed an exception to this rule. In other words, whenever payment is made by the drawee of a forged bill or check to a holder without his fault and his situation would be made worse if compelled to refund the money, it cannot be recovered from him. The reason for this rule, says an eminent jurist, is obvious. The bank that pays is supposed to be more familiar with the handwriting of the maker of the check than the holder, and the law therefore allows the holder to cast on him the entire responsibility of determining the genuineness of the instrument, and if he fails to discover the forgery, imputes to him negligence, and as between him and the innocent holder compels him to suffer the loss. But since 1849 in Pennsylvania the drawee bank can recover from the holder of a draft presented for payment money erroneously paid. The drawee, however, must not be negligent in paying it, if he is clearly guilty of negligence in any way, he must suffer the loss.

When a person receives money from a bank, he should immediately count it. Many are neglectful of this precaution. If a count is not made until some time afterward and is found to be short, troublesome questions arise between the receiver and the bank. It may be that the receiver has lost some of the money, and for that reason a count should be made and, if possible, in the presence of the teller. On the other hand, if his cash should prove up too much at the end of the day to the amount of the shortage claimed by the receiver, then it would be strong proof that the teller had made a mistake. If the mistake can be established, the bank can be held liable, otherwise not. Our readers can readily understand the difficulties in establishing such a fact in most cases.

There are other ways by which the bank may pay and receive checks than by the first teller. First, the note teller may receive them in payment of a note. Secondly, the receiving teller may take them on credit; and, thirdly, the runner in payment of a draft. For example, if Smith has a balance of $5,000 in a bank he may draw that sum from the paying teller, or he may give his check for it to another person for deposit in the same bank, or he may take up a note with it at the note teller's desk, or he may pay a draft to the runner with it. Hence he may draw out $15,000 though having but one-third of this sum on deposit. Of course such a transaction is fraudulent and rarely happens. But it is possible.

If checks are not paid when sent through the clearing-house they are chargeable to the depositor's account. But if a check is deposited in the same bank as that on which it is drawn it is paid when taken by the receiving teller, as truly as if the first teller paid money in discharge of it. In such a case if the check should not be good, the bank might be obliged to look to the drawer of it and not to the de-

positor. So, if a dealer A took up his note with the check of another dealer B on the same bank, the bank would look to the drawer of the check and not to the dealer for the money.

Another duty of the paying teller relates to the payment of notes of depositors. Those discounted by the bank must be charged against his account, and if this is not done the endorsers thereon, if there be any, are discharged. This duty however concerning notes not thus discounted, but which are made payable there, has often been questioned, and the courts seem to be hopelessly divided. In New York the highest court has remarked that "a note payable at a bank where the maker keeps his account is equivalent to a check drawn by him upon that bank, except that in the case of a note the failure to present for payment does not discharge the maker." This is in harmony with the rule that has long prevailed in England. The Supreme Court of Pennsylvania has declared that a note which is payable at a bank where the maker keeps his deposit is in effect a draft on the institution in favor of the holder and in discharge of the endorser if there be one. And Chief Justice Marshall once remarked that "by making a note negotiable in bank, the maker authorizes the bank to advance on his credit to the owner of the note the sum expressed on its face." This rule prevails among the banks in the majority of states.

But the rule does not prevail everywhere. Many banks still adhere to the practice of not paying such notes unless they have received explicit directions to pay them, and this view of their duty is sustained by the courts of their respective states. But every now and then a bank has paid supposing that it ought to do so, and the courts have afterwards declared that it was mistaken in its conception of its duty.

In perhaps more than half the states the courts have not decided whether it is the duty of banks to pay such notes or not, and in view of their uncertain answer, every bank ought to adopt a by-law clearly defining its action. By this easy method all doubt would be removed. When the time for serving dealers has expired, the paying teller makes up a statement of the day's business. This is called a Proof. This proof is a test of the accuracy of the day's transactions. The footings of cash on hand must agree with the "balance of cash." If there is any discrepancy it must be hunted for until found, and the necessity of going over figures and recounting cash, after the close of a hard day's work, is often an exasperating trial of the teller's patience.

On the next page is the paying teller's Proof of the Arctic National Bank. Some tellers have a simple form, like that given here, others have a much more elaborate form:

FIRST (OR PAYING) TELLER'S PROOF.

Thursday, July 24, 1898.

	[Double Red]	[Double Blue]	[Double Blue]
Balance of Cash brought forward from previous day			2,830,269 65
RECEIVED.			
From Second Teller, Office List*		25,275 43	
" " " Gold		6,189 00	31,464 43
" Third Teller, Office List		35,345 57	
" " " Gold		13,190 00	48,535 57
" Second Teller, C. H. Exch.		840,305 80	
" Third " "		125,717 15	
" do., checks by morning mail		103,911 25	1,069,934 20
Exchange from Clearing-House			1,176,006 50
Cash on Hand July 24, 1898.			
Legal tender notes		1,270,390 00	
Arctic National Bank Notes		73,215 00	
Other " " "		618,440 00	
Gold, in vault 750,000 00			
" in trays 11,455 00		761,455 00	
Silver, in vault 17,500 00			
" in trays 1,179 50		18,679 50	
Sundries		439 25	
		2,742,618 75	5,156,210 35

	[Double Red]	[Double Blue]
PAID.		
Second Teller's Exchanges sent to Clearing-House	840,305 80	
Third " " " "	125,717 15	
Morning Additions by Mail	103,911 25	
Debit Balance Paid	106,072 39	1,176,006 59
Checks Paid, viz:		
Individual, A to L	327,659 44	
" M to Z	209,812 70	
Banks and Bankers, A to L	195,268 84	
" " M to Z	202,193 68	
General Ledger	120,451 35	1,055,385 01
SECOND TELLER'S DEBIT.		
Cash, viz:		
Legal tender notes	5,750 00	
Gold Certificates	20,000 00	
Gold Clearing-House Certificates	100,000 00	
Gold Coin	5,000 00	
Silver Coin	400 00	
National Bank Notes	12,500 00	
Checks on other Banks, etc	38,500 00	182,200 00
Total Payments		2,413,591 60
Balance of Cash, carried forward to next day		2,742,618 75
		5,156,210 35

*Checks on private bankers, or on other cities, which cannot be used in Exchange, with mutilated bills, etc., constitute the Office List.

These suggestions, put in the form of by-laws, may be rendered in the following manner:

By-laws regulating the payment of deposits and making collections.

1. The checks of depositors drawn on sufficient funds will be paid, notwithstanding the death of the depositor, at any time within ten days after knowledge of the event has come to the bank unless otherwise directed by the executor or administrator of the estate of the deceased.

2. Checks will not be paid beyond thirty days after their date unless satisfactory reasons are given for the delay in presenting them, or authority has been directly given to the bank by the maker after making them to pay the same.

3. Deposits made by two or more trustees, executors, administrators, or other persons acting in a joint capacity, not including partnerships, can be withdrawn only on the signed order of all of them, unless a satisfactory reason is given to the bank for paying on the order of one, or a less number than all.

4. Depositors should examine their pass books, checks and other vouchers within ten days after their pass books have been written up and returned with accompanying vouchers to them, and this bank will not hold itself responsible for any mistake made in paying on a wrongful signature if such examination is not made within the time mentioned, unless the depositor was sick, absent, or otherwise unable to perform his duty, or unless the bank was wilfully negligent or wrong in paying without adequate authority.

5. When a check is presented and the funds of the maker are not sufficient to pay it, the bank may pay whatever amount it may have belonging to him, either taking the check and endorsing the amount thus paid on the back, or taking a receipt therefor describing fully the check on the authority of which the amount is paid.

6. If two or more checks are presented either directly over the counter or through the clearing-house at the same time for payment, and the maker's deposit is insufficient to pay the full amount of all, his deposit may be applied pro rata on each and endorsed or receipted for as described in the foregoing by-law.

7. All checks, notes, or other deposits credited as cash, in whatever manner they may be endorsed, may be charged back in the event of their noncollection.

8. Checks and other instruments deposited for collection may be sent to the drawee bank to be collected, if this bank shall so determine. Checks and other instruments deposited for collection may be sent to the drawee bank to be collected when there is no other reputable bank or banker in the same place.

9. In making collections, this bank considers itself fully authorized

in taking other checks in payment drawn on a reputable bank in another city than the drawee bank.

10. In collecting time drafts secured by merchandise to which the bill of lading or other title thereto is attached, the bank may surrender the same on the presentation and acceptance of the draft, unless it clearly and unequivocally states that this shall not be done, or instructions to that effect have been received from the owner.

11. Notes and other obligations made payable here will be regarded as a direction to pay the same, which will be done whenever the maker's deposit is sufficient for that purpose.

After paying checks, their preservation until their return to their makers is a matter worthy of mention. A cabinet check file is now in use in many banks, which has proved very useful. Each file is provided with stiff index partitions, which are movable and interchangeable; and new portions can be easily added, or old ones removed. The index partitions fit into a longitudinal groove in the bottom of the file, so that checks cannot possibly get under them. The follower is made of wood, and moves on a brass rod in the bottom of the file, and is provided with an automatic clutch, which locks it in position. The use of the follower is to keep the checks and partitions closely together, thus preventing the checks from becoming soiled and keeping them smooth.

The index partitions of the file are provided with a subdivided alphabet running through the cabinet, the checks are filed between the partitions according to the letter of the alphabet with which a name begins, those depositors drawing a large number of checks being provided with special compartments with the names printed thereon.

CHAPTER XII.

THE RECEIVING TELLER.

This official ranks next to the paying teller, and usually succeeds him when he is promoted.

The accounts of a bank may be divided into the following classes: General accounts, individual accounts, banks and bankers' accounts, city dealers' accounts, and collection accounts. The general accounts are such as stock, expense, bills discounted, profit and loss, cash, interest, exchange and some others.

The receiving teller receives all kinds of money and checks from the depositors. The book in which these deposits are entered is called the receiving teller's cash book. He has two books of the same kind for alternate use by the teller and the bookkeeper.

The original entries of individual deposits are made by the receiving teller, and the other entries are made by the note teller. The latter also receives the money paid for notes lodged for collection. Both clerks are receiving tellers, the receiving teller is called the second teller, and the note teller the third. This rank they hold in the order of promotion.

The deposits of merchants consist of the various kinds of money and checks already described, and other documents representing money.* The depositor is required to state the details of his deposit, and a form is given him to fill up, which saves labor in making the necessary statement. This blank is called a deposit ticket. A teller will not receive money without it. The practice is different in country banks, as will be hereafter shown. If his cash does not prove at the end of the day, he re-examines these tickets and generally can find out where the error is. After proving his cash, the tickets go to the bookkeeper to be used in posting the credits of the ledger.

A bank located in a large city has an exchange drawer or rack which is divided into numerous boxes. The checks of neighboring banks received for deposit are assorted, and those on each bank are put into their own box.

The footings of the checks thus received are copied on the general

*For description of the record or slip made by a depositor, see p. 211.

list, and added together constitute the deposit teller's portion of the exchange which goes to the clearing-house.

There are no complex calculations in the accounts of the receiving teller. His duties are simple, and a high order of intelligence is not required to fulfill the duties of the place. Most of the deposits, especially in the banks in the large cities, consist of merchants' checks, which are given in discharge of obligations or purchases. Some of these are certified before deposit and some are not. Whenever the depositor is well known, his checks are received without previous certification. But in other cases a certification is required.

The reader should not confound the business of certifying with that of over-certifying. There is no legal objection to certifying a check to the amount of the depositor's balance. The national banking law prohibits the certifying of checks only in excess of the depositor's balance. The former kind of certification is very necessary. Many persons whose financial standing is not known give checks outside the banks on which the checks are drawn. When, therefore, the check of an individual bears the certification of the bank on which it is drawn, it will readily pass in making payments, or be taken on deposit in any bank. But the check of an unknown person would be received with hesitation. It might be good, and it might not be. The certification of a check by the bank on which it is drawn adds much to its negotiability.

The receiving teller of a bank may have reasons for requiring checks to be certified of which the dealer may be ignorant and perhaps cannot be informed. Sometimes a very considerable degree of tact and caution are necessary in determining when certifications should be required. Dealers should not be offended unnecessarily, yet the safety of the bank must be regarded at all times. To protect it, and to retain the friendship and good will of dealers, is sometimes a difficult thing to do. Some persons are richly endowed with tact and power of discernment; they always know what to say, and how to say it, when to be silent and not excite distrust or arouse the ill-feeling of dealers. By other persons such a knowledge of men and things is never acquired, though their knowledge in many ways may be great and useful.

The receiving teller should know the condition of all accounts. To do this he must ask the bookkeepers what is their average run; he should personally examine the ledgers, and also the deposits and checks, and make all other inquiries of persons in the bank or elsewhere who are likely to throw any knowledge useful in his department of the business.

The receiving teller should examine the signatures, endorsements, dates, and other features of checks, the same as the paying teller. Dealers who are perfectly honest may be cheated by others, and deposit fraudulent or "kiting" checks. The depositor should endorse his

name below all others on the back of each check. The receiving teller should notice especially this last endorsement, for it is the key to discovery if anything wrong should appear in the future history of the check. At times, when checks are rapidly received for deposit, it is impossible to examine them carefully, and hence the greater need of looking at the endorsement of a depositor. When checks are finally paid where they are made payable, errors are sure to be detected, and of course the bank receiving them ought always to know from what source they come, in order to know what to do with them should any imperfection be discovered.

Reclamations between banks occur daily. Checks are dated ahead, or the dates are obscure or omitted. They lack intermediate endorsement, or they are endorsed by attorney without adequate proof of his authority. The sum in the body of the check may not correspond with the figures below, or may be entirely wanting. Checks sometimes are paid without signature. The paying teller recognizes a familiar style of writing and the omission of the name may not be detected. Sometimes they are thrown into the wrong box, and are taken to the wrong bank. These and many other errors happen. As soon as discovered the checks are sent back to their proper places for correction.

Merchants sometimes keep accounts with more than one bank. This is done for several reasons. One reason is to obtain larger discounts. Some persons think that greater secrecy can be maintained than by doing all their business with one bank.

There is a protective feature in many accounts which prevent banks from losing by overdraft; we mean when dealers have notes deposited for collection. For, when paid, they are posted to the credit of their owner, and may make up a deficit in his account. Bank officers will sometimes admit temporary overdrafts in anticipation of the maturity of collection notes; or, what is better, make transient loans, holding them as collateral, by which the irregularity of overdraft is avoided. The receiving teller takes no cognizance of this source of recuperation unless he finds a necessity to resort to it.

The word "foreign" is applied by banks in New York City to all others. Most of the banks located there receive, on deposit, individual checks on banks at a distance. Merchants in Buffalo, for example, remit their checks on banks in that city to their creditors in New York, and there they are received as cash, perhaps, deducting enough to cover the exchange and the expense of collecting. They may be returned not good after several days, and, in such a case, the depositor must promptly redeem them. The interval between their deposit and their return is long enough to permit the dealer to close his account and leave the bank in the lurch. It follows that the receiving teller is practically discounting paper all the time.

The deposits received by the receiving teller consist principally of

checks. When making up his list for deposit, the depositor should endorse them all, whether payable to bearer or order, with this phrase:

Pay to the Order of
The ARCTIC NATIONAL BANK.

.....

.....

.....

American Cotton Co.

In England, the custom prevails of crossing checks payable to bearer. This crossing consists simply of drawing across the face of the check two parallel lines, between which are written the words, "& Co.," after a blank space. The check can then be collected only through a bank or banker.

To obviate the trouble of writing in full the words, "Pay to the order of the Arctic Bank," a stamp may be used, leaving only the signature of the party to be written underneath by himself. In some places, it is the custom of a bank to give a depositor, when opening his account with it, a rubber stamp containing the above form and his name.

The receiving teller rarely receives forged checks, as he transacts business only with the regular dealers. Of course a dealer may determine to be a knave, and to practice a fraud on a receiving teller. but happily such cases are very infrequent.

One of the most difficult duties of a receiving teller is to determine whether all the money presented is good or not. Some tellers have a real knack for detecting counterfeit money, while others have but very little. Much can be learned from the study of the bills; on the other hand, the peculiar aptitude of some tellers is a kind of innate faculty, quickened, it may be, by a comparison of money. The banks in the larger cities are the chief victims of the counterfeiter. When business is done very quickly there is less time for examination. Go into one of our large banks in the afternoon a short time before closing and see the long line of depositors, each of whom is eager to get away at the earliest possible moment. The receivers well know the restlessness of that long row slowly moving on the other side of the grating. Consequently they work with great rapidity, and have no time to scrutinize the money received. Our larger banks should have more receiving tellers in order to take care of depositors promptly and insure themselves more perfectly against the wiles of the counterfeiter.

No bank should be without a standard publication on counterfeits. There are several that are fully alive to the importance of their work. But these publications should not be put away on a shelf as

soon as they are received. Unless they are constantly studied, says a cashier whose suggestions are worth heeding, they will furnish no assistance in keeping counterfeits out of the drawer, though they will teach you the truth, after they are thrown back on you. Most tellers have an idea that they "know all about it;" and can tell a bad bill twenty feet off. If you desire to become a first-rate teller, take your counterfeit detector and study page by page, by comparison with genuine notes. Take a strong magnifying glass, examine the good bills, and locate the defects on the counterfeits. Go from one denomination to another, until the looks of the genuine bills and the weak spots in the counterfeits are engraved on your memory. Then you know where to look for the vulnerable spots, whenever you handle money, and will have no need to scrutinize the bills as a whole.

Besides, such investigations will teach you the currency and coin of your country. "Ah!" you will say, "what an idea! Have handled it for years and years; know it like a book!" This is mere vanity! Try it once! There are but very few tellers who can correctly describe even those denominations most in circulation. Ask them for a superficial description only, and portraits, vignettes, etc., are strangely mixed. One whose business is to handle money from year to year, should endeavor to inform himself not only concerning fraudulent issues, but also on all the facts relating to American money; how it looks; how it is coined and manufactured.

Another good practice is to cut out all newspaper items or telegrams relating to spurious money and how banks are duped. Paste these in a convenient place and read them over occasionally in order to keep alert and escape the arts of the "shovers of the queer."

The observations of an excellent authority on the methods of detecting counterfeits are well worth adding. Experts do not judge so much by the appearance of a note as they do by its "feel;" that is, by the way it slips through the fingers, but it takes years of experience to acquire the necessary fine touch, and even then it is not always reliable. Every bill is lettered and numbered and there is a connection between the numbers and the letters which is made in such a way that when you know about it you can tell a genuine bill almost at a glance. What are known as the character letters of a bill are placed on either side of the central figure or vignette and are A, B, C and D only. The letters stamped in colors before and after the numbers have nothing to do with the case so far as detecting a counterfeit goes, but those engraved on the bill in the places mentioned are rightly named character letters, since they serve, in connection with the numbers, to show if the bill is genuine. Now suppose you have a bill numbered 12922826. The character letter on such a bill should be B. Why? If you take the last two figures, which are 26, and divide them by 4, you will have a remainder of 2. Now B is the

second letter of the alphabet, and the remainder after dividing the last two figures by 4 must in every case be that represented by the numerical position of the first four letters of the alphabet. That is, when one is left over the character letter should be A; 2 over should be B; 3 over should be C, and when there is no remainder the letter should be D. When this rule fails to work on any bill you come across you can bet as many more as you can raise that the bill is a counterfeit. It is rather strange, but it is still another fact that the counterfeiters have not caught on to this little scheme of Uncle Sam's currency sharps and that they slap in their letters and numbers without any regard to the relation that ought to be between them.

When notes are received that are counterfeit it is the duty of the receiving teller to mark their character. The national bank act requires national banks to stamp or write in plain letters the words "counterfeit," "altered" or "worthless" on all fraudulent circulation notes that come into their possession. If, however, they wrongfully mutilate national bank notes or greenbacks they must pay all damages. This is sometimes a delicate duty to perform. A receiving teller says to a depositor who has presented a note that is fraudulent, and that he must stamp and return it to him. Of course, the effect of doing this is to stop its currency, indeed, this is the object of stamping it. The receiving teller may know his customer, and that to him such intelligence will be very unwelcome; yet there is the plain law before him. In many cases the receiving teller is not so sure that the note is counterfeit; and should he make a mistake, his bank would be liable for the amount. The error, however, can be easily enough corrected by simply sending the note for redemption, setting forth the fact and getting a new one from the government, so that the danger of loss to a bank ought not to deter a teller from performing this clearly defined duty.

The attitude of the customer, however, may be worthy of thought; and if the teller has any doubt concerning its true character, we suppose the more common practice is to return the note and let the owner find out in other ways whether it is counterfeit or not. In Great Britain the general practice, in taking the Bank of England notes, is to put on them the initials of the person from whom they were received so that, in the event of any difficulty, they can be traced. It would hardly be practicable for us to introduce such a system in circulating the smaller notes, but it might be applied to some extent in circulating the larger ones. Were more care observed in taking paper, in keeping records of transfer, etc., its history could be more easily traced, and the counterfeiter's ways would be harder. He flourishes because those who take paper money are so careless or ignorant in receiving it. Were they more watchful he would be less inclined to pursue this miserable business.

In receiving coin, and especially gold coin, tellers are sometimes neglectful concerning its weight. On the Pacific coast, where it is in more general use than in the East, as the loss from abrasion is inevitable, the law would be unjust if every coin falling below the standard weight was declared to be uncurrent. On the contrary, it expressly provides for the redemption of coins in weight within certain limits. "Any gold coins of the United States, if reduced in weight by natural abrasion not more than one-half of one per centum below the standard weight prescribed by law, after a circulation of twenty years, as shown by the date of coinage, and at a ratable proportion for any period less than twenty years, shall be received at their nominal value by the United States Treasury and its offices, under such regulations as the Secretary of the Treasury may prescribe for the protection of the government against fraudulent abrasion or other practices.

"Any gold coins in the Treasury of the United States when reduced in weight by natural abrasion more than one-half of one per centum below the standard weight prescribed by law, shall be recoined."

Coins twenty years of age may, therefore, be one-half per cent. below standard weight and still be current. The loss from abrasion on $5,000.00 of such coins might be $25.00 instead of $11.00, and on $1,000,000 be $5.000 instead of $2,200, and still the government might receive them at their face value. Many of the coins in use on the Pacific coast are below the limit of tolerance, and they have become so by reason of honest use and not necessarily by any fraudulent act.

A coin of light weight, unlike a counterfeit note, cannot be stamped "light weight" or any words to indicate its imperfect character. There is absolutely no law directing or permitting the mutilation or marking of coin light or heavy. There is a provision, however, which directs that "every person who fraudulently, by any act, way, or means, defaces, mutilates, impairs, diminishes, falsifies, scales, or lightens the gold and silver coins which have been, or which may hereafter be, coined at the mints of the United States, or any foreign gold or silver coin which are by law made current or in actual use and circulation as money within the United States, shall be imprisoned not more than two years and fined not more than two thousand dollars."

When the receiving teller has counted the money, checks, etc., of his depositors, the amount is entered in a book presented to the depositor for that purpose. As many depositors imperfectly understand their duties, this book might be prefaced with some instructions for his guidance. The following instructions have been suggested by an experienced cashier:

1. If you wish to open an account with a bank, provide yourself with a proper introduction. Well managed banks do not open accounts with strangers.

2. Do not draw a check unless you have the money in bank or in

your possession to deposit. Don't test the courage or generosity of your bank by presenting or allowing to be presented your check for a larger sum than your balance.

3. Do not draw a check or send it to a person out of the city, expecting to make it good before it can possibly get back. Sometimes telegraphic advice is asked about such checks.

4. Do not exchange checks with anybody. This is soon discovered by your bank; it does your friend no good and discredits you.

5. Do not give your check to a friend with the condition that he is not to use it until a certain time. He is sure to take an out-of-town check from a neighbor, pass it through your bank without charge and give him your check for it. You are sure to get caught. Discount no accommodation note; in the meaning of a bank it is a note for which no value has passed from the endorser to the drawer.

6. Do not give your check to a stranger. This is an open door for fraud, and if your bank loses through you it will not feel kindly toward you.

7. When you send your check out of the city to pay bills write the name and residence of your payee, thus: "Pay to John Smith & Co., of Boston." This will put your bank on its guard if presented at the counter.

8. Don't commit the folly of supposing that because you trust the bank with your money the bank ought to trust you by paying your overdrafts.

9. Don't suppose you can behave badly in one bank and stand well with the others. You forget there is a clearing-house.

10. Don't quarrel with your bank. If you are not treated well go somewhere else; but don't go and leave your discount line unprotected. Don't think it unreasonable if your bank declines to.

11. If you want an accommodation note discounted tell the bank frankly that it is not in their definition a business note. If you take a note from a debtor with an agreement, verbal or written, that it is to be renewed in whole or in part, and if you get that note discounted and then ask to have a new one discounted to take up the old one, tell the bank about it.

12. Don't commit the folly of saying that you will guarantee the payment of a note which you have already endorsed.

13. Give your bank credit for being intelligent generally and understanding its own business particularly. It is much better informed probably than you supposed.

14. Don't try to convince your bank that the paper or security which has already been declined is better than the bank supposes. This is only chaff.

Our readers perhaps might be inclined to soften the expressions in some cases; in the main they merit consideration. To these instruc-

tions, however, a bank might add regulations or by-laws defining more perfectly the relations existing between itself and its depositors. Such by-laws, when they are reasonable and made known to a depositor by inserting them in his pass book, where he has the fullest opportunity to read and understand them, have the force of a contract between the parties, so the courts have declared on many occasions. Among the by-laws that might be adopted the following are suggested:

First, in those states where no statute exists relating to the subject, a regulation might be incorporated in the book relating to the payment of checks after the death of the drawer. The Massachusetts statute provides that a bank is authorized to pay a check within ten days after his death, and this rule might be adopted without the taint of staleness, or other imperfection.

Another rule that might be adopted is to require checks drawn by the trustees or executors of estates to be signed by all of them. If there are two executors or trustees, the very object of creating them is to secure safety by joint action. Surely, if this is ever required, it should be in the withdrawal of a bank deposit.

Another regulation might be added pertaining to the examination of checks of depositors returned to them with their book after they have been entered in their pass book. It might require him to make an examination within five or ten days or other period after receiving it, unless prevented by sickness or other accident. Elsewhere we have fully shown the necessity of making such examinations by the depositor himself, and not intrusting them even to his confidential clerk or brother.

Another regulation might relate to the part payment of checks. (1) What the bank shall do whenever the amount is insufficient to pay a check that may be presented; (2) or in the event of the presentation of two simultaneously; (3) or through the clearing-house.

Another regulation might relate to the effect of crediting checks as cash. It is true the law regards such crediting only as provisional, and in the event of their non-collection the amount can be charged back, but it would be well to state more plainly the relations assumed with respect to such checks.

Another regulation might be added prescribing more fully the course of a bank in collecting checks received from depositors. One of the questions raised on many occasions is whether the receiving bank has the right to send a check to the bank on which it is drawn for payment. This right is denied by the states of Pennsylvania, Colorado, Texas, and Illinois. The reason for the denial is that as the holder of a note would not think of sending it to the maker, so a bank should not send a check directly to the drawee bank for payment. But the reason is faulty because the drawee bank is simply a

trustee of the money in its keeping, and is as ready to pay it over to one person as another. The principle on which the courts have proceeded in thus cutting banks off from the right to send checks directly to the banks on which they are drawn is the greater risk of loss; but if they were sent to another for collection there would be just as much danger of loss through this agent as through the other. The regulation might specify that in a place where only one bank existed, it was authorized to send checks drawn on it directly to the drawee bank for payment; and in places where there are two or more banks in good standing to some other bank than the one on which the check is drawn for the payment of the same.

Another regulation might relate to the payment of stale checks, and requiring presentors after a check has been in circulation a given number of days from its date, ten, twenty, a month or other period, to bring some additional authority from the maker unless he had previously given it to the bank. It may be that a non-presentation of a check might be noticed and some direction be given by him to the bank concerning its payment.

Two other regulations might be made with depositors, the one defining the authority of a bank to surrender bills of lading for merchandise given to secure time drafts on their acceptance; and the other permitting a bank to take other checks drawn on reputable banks or bankers in exchange for notes, drafts, checks and other instruments sent for collection.

Lastly may be mentioned a regulation defining the duty of a bank in paying the notes of a depositor made payable there. Different rules have been declared by the courts. The regulation might provide for at least five different cases: (1) Notes unendorsed; (2) endorsed notes; (3) where the deposit is insufficient; (4) when the deposit afterward becomes sufficient; (5) when notes are presented after their maturity.

When deposits are made the depositor sometimes waits until the counting is finished; on other occasions he leaves immediately. Some banks, though, require the dealer to wait until his deposits have been counted in his presence. Sometimes deposits are left containing the dealer's count on them; if they are, when the recount is made, should there be a deficiency, the depositor must abide by the teller's count.

Not infrequently a claim is made by some depositor for a larger sum than that with which he is credited. How these differences arise is often mysterious. The deposit teller then makes a general and thorough revision of all his figures, checking them off by his deposit tickets and going over his additions. If the error cannot be discovered in this way he sends a letter to each dealer whose deposit may possibly have been erroneously entered, and if the error still remains undis-

covered the cashier is informed, and perhaps the directors at their next meeting. The search is continued as long as there is any chance of detecting their error.

The books of depositors should be written up as often as once a month. The reason for doing this is obvious. Mistakes, alterations and forgeries are more likely to be discovered when the drawing of checks is fresh in the drawer's mind than at a later period when the remembrance of transactions has faded away. Furthermore, whenever it is possible, this work should not be done by the receiving teller, but by some other official, in order to test the accuracy of the receiving teller's work.

Toward the close of the day depositors multiply in number. "First come, first served," is the rule; a row is formed, and the last comer must take his place at the end farthest away from the receiving teller. Formerly, when the state banks issued notes, and counterfeiting was a more general practice, the business of assorting and counting bank notes was a more difficult practice than it is at present. No assorting is done now when notes are received. The teller merely watches sharply for counterfeits. Afterward the notes are assorted into packages of various denominations without regard to the bank issuing them. Such is the perfection of the national bank note system, that the note of one bank is as good as that of another, and hence there is no occasion for noticing their parentage.

The checks on country banks are handed over to the corresponding clerk, who lists them in his letters and in mail blotters for charge to the appropriate banks in the collection ledger, unless they are on dealers of their own bank. In that case they are often charged directly to the general account of the dealer.

Gibbons says there is a loose practice with some banks with respect to a deficit or excess of cash in the daily accounts of their tellers. Small sums accrue, which are thrown together in a box or drawer and applied to the payment of small deficits. These are not noted on the face of the day's transactions. He objects to this mode of conducting a banking business, and well he may. Nothing short of exactitude should be allowed in commercial accounts, and especially in a bank. A teller should be required to find his error if possible. A ledger account should be opened with each teller, in which any surplus should be credited under its actual date, or any deficiency charged, and this might be periodically balanced by a transfer to profit and loss.

CHAPTER XIII.

THE NOTE TELLER.

The note teller receives the letters and the money for all promissory notes liquidated at the bank. In small banks his duties may be blended with those of the receiving teller. And again the duties of both may be performed by the paying teller. In other words, one person may perform the duties assigned in a larger bank to the three besides several assistants.

There are two kinds of notes. Those which are discounted by the bank, and those which are deposited by the owners for collection, and for which they are to receive credit when they are paid. The former are called bills discounted, and the latter collection notes.

In large banks at the present day the note teller does not have charge of the notes until the morning of the day of maturity. The bills discounted are handed to him early on the morning of the day of their maturity by the discount clerk. They are usually strapped together, and the total amount of the notes is stated in pencil on the strap. When collected, this total amount is credited to "bills discounted" in the general ledger. Should any of these notes not be paid, of course the amount to be credited to "bills discounted" will be just so much diminished.

The collection clerk each morning hands to the note teller the notes he has maturing, and with a ticket for each note, or with a ticket for each owner of notes.

When the notes are entered they are arranged by the note teller in the order of the names of the payers. The note teller is now prepared to receive payment of the notes whenever debtors appear. The notes payable at the bank are retained by the teller in his drawer, and those payable at other points in the city are sent out by messengers for presentation.

The note teller reaches the bank in time to make the entries of remittances by the morning's mail before the institution is opened to the public. The following is the usual form of letter received now-a-days, with abbreviations:

DELAWARE RIVER BANK,
Philadelphia, June 30, 1899.

H. MORSE, Esq., Cashier.

Dear Sir:

Enclosed find for our credit:

Peters, Cashier	on Com	$ 9,400 00
Ruffin, "	" Am	10,000 00
Luther, "	" Am. Ex	1,575 60
Simpson, "	" Met	14,263 70
Corse & Co.	Third Nat	1,800 00
Kerr	Phx	2,740 00
		$39,799 30

We add for collection:

Brown	on Thompson 3 ds	$ 1,250 00
Green	Burr & Co 10 ds	3,263 20
Wilson	July 10	2,249 75
White	90 ds	242 90
Kent	Albany July 25	506 00
Mother	Buffalo Aug. 3	1,000 00
Gray & Co.,	Hartford sight	2,600 00
Roberts	Port 10 ds	2,740 00

Yours truly,

J. J. JONES, *Cashier.*

To explain them fully, these items for credit mean checks as follows:

J. Peters, Cashier, Sussex Bank of Milford, on National Bank of Commerce, N. Y.	$9,400 00
T. Ruffin, Cashier, Bank of Fullerton, on Bank of America	10,000 00
Corse & Co., Richmond, Tenn., on Third National	1,800 00

And so on

The collection items are drafts or notes, thus:

A. Brown & Co., draft on Thompson Bros., at 3 days' sight	$ 1,250 00
P. Green & Sons on Burr & Co., 10 days' sight	3,263 20
Wilson & Co., Note due July 10	2,249 75
Kent Bros. (payable at Albany) July 25	506 00
Draft on Gray & Co., Hartford, sight	2,600 00

This letter is given to the note teller, who writes his initial as his receipt for each check that he takes from it for credit to the remitting bank. In the same way, all letters containing cash documents are passed into his hands, and the proper entries are made from them. In the Boston system of bookkeeping, which will soon be explained, the entries are made from the letter itself. The total footing of the letter is first posted in the Note Teller's Cash Book, the letter is then handed to the bookkeeper who again posts the total opposite the dealer's name, and afterward the letter is handed to the corresponding clerk, who brings all the letters to the cashier for examination. In many banks, the president goes through the letters received the previous day; in other banks, the president is shown every unusual letter. It is important by this system to have the letters footed, because the letter is the original entry, and every footing is from the letter. The totals of the letters are posted by the note teller, and again by the bookkeeper, and they compare the footings.

Some banks send notices of the time when a note falls due. This notice is sent in compliance with the following Resolution:

> RESOLVED, by the Associated Banks of the City of Philadelphia, that as soon as practicable, after discounting paper for customers or others, notice of the maturity of such paper shall be sent to the maker or makers thereof, whether payable at bank or elsewhere.

To .....

Your note for $..... is held by the

Arctic National Bank of Philadelphia,

AND WILL BE DUE AT

.....190.....

BRING THIS NOTICE WITH YOU. THIS IS THE LAST DAY OF GRACE.

BANK CLOSES ON SATURDAYS AT NOON.

Formerly this was done more generally than it is now. The business has become too large for banks to continue it. Persons who give notes are supposed to know when they become due, and should be prepared to pay them without notification. In some cities the custom seems to prevail of making notes payable at any bank in town. Especially is this the case in Boston; where it prevails notices would seem to be necessary. In New York City, however, it is customary for merchants and other persons to make their notes payable at a specific place, and to have the money there to pay them at maturity.

When notes are paid, a certified check may be used, or money. A teller should preserve the notices and memoranda of his transactions in the order of their occurrence until his cash is proved at the end of the day. They may serve a useful purpose in refreshing his memory or in detecting any error that may happen.

When a note is paid, the bank stamps thereon the following:

"PAID
THE MERCHANTS' BANK."

Of course a great many incidents and irregularities happen in connection with this department. The persons who ought to pay perhaps forget where the note is payable, or when, or the amount. Sometimes the notice is delivered to the wrong person. Some merchants write their notes payable at the bank where they keep their account.

After the last payer is dismissed the note teller closes his gate erases from the cash book and discount tickler the notes that remain unpaid, and delivers them to a notary public for protest, except where no endorser is to be held.

The protest consists in presenting the note at the place of business of the drawer, or wherever it is made payable, and demanding the money for it. If this be refused the note is attached to a printed legal form, containing the following particulars: First, a true description of the note, so as to ascertain its identity; second, an assertion that it has been duly presented to its maker, or place of payment, at maturity, and dishonored; third, the holder, or the person giving the notice, looks to the person to whom the notice is given for payment and indemnity. This statement is essential to establish the claim or the right of the holder or the party giving notice, for otherwise he will not be entitled to any payment from the endorser. It will be sufficient, indeed, if the notice sent necessarily or even fairly implies by its terms that there has been a due presentment and dishonor at the maturity of the note, but mere notice of the fact that the note has not been paid affords no proof whatever that the note has been presented in due season, or even that it has been presented at all. The note is returned to the bank on the following day. The notary sends notice of the protest to all the endorsers and to the drawer of drafts, which advises them of their liability for the payment in case of the continued default of the first debtor. If the notes should be paid when presented by the notary he returns the money to the bank on the next morning.

CHAPTER XIV.

THE DISCOUNT CLERK.

As we have seen, the profits of banking are composed of interest on money—in other words, of interest, discount and exchange.

The loans are called discounts, because the interest is paid in advance and deducted from the amount due to the borrower. But if a bank were to deduct seven dollars from a hundred dollar loan, payable a year after date, the bank would receive seven dollars for a loan of only ninety-three dollars. If the bank paid the borrower $93.46, this sum at seven per cent. interest for a year would amount to a hundred dollars, the sum expressed in the note. Banks are permitted by law to deduct interest in advance in this manner, at the rate prescribed, without rendering themselves liable for usury. The difference, therefore, between interest and discount in bank practice is, the former is a sum of money payable for the use of money at the end of a given term, while discount is the money reserved from another sum at the beginning of the term for which it is loaned.

When a bank discounts a note the interest is deducted at once, and the borrower receives credit for the balance.

The offering book, containing a record of the notes offered for discount, we have described elsewhere. The form of offering book, however, is not the same in all banks. Some dispense with the balance column, and some add another, showing the liquidations before the next discount day. Some banks enter in this book loans already made to the borrower so that directors may have before them, when they meet, all the essential facts necessary to transact their business intelligently.

Accepted paper is now taken by the discount clerk, who first examines the notes for filing and general character, and then "times" each note on its face. The notes are then entered in what is termed the "dealers' discount book," which usually is ruled to permit, first, the maker's name, then the endorser's, the place of payment, due date, and the number of days to run, discount, amount of exchange charged, and net proceeds. For the latter amount there is a separate column for each of the ledgers, so that all the amounts belonging to any one ledger appear only in one column. From this discount book the discount clerk makes his statement, and posts his ledger, or bill book,

and his ticklers. Before putting away the notes he "checks" them back on the "ticklers." These "ticklers" are very important books. Why they have been so called is scarcely known, but probably from the habit of ticking or checking off the entries. There is usually one tickler for each month in the year, and one or more pages for each day, with the pages on the left side reserved for notes payable in the city, and those on the opposite side for notes payable out of town. The total footings of these ticklers will present the total amount of "bills discounted," and the proof of these total daily amounts is taken at least as often as once each month, and proved with the general ledger.

There are discount ledgers, which are opened in the same manner as personal ledgers, but embrace the accounts only of customers who get notes discounted. They contain a record of every note discounted, the date of discount, the endorser or security therefor, and the time of maturity. They also show the liability of each customer as endorser for others on discounted paper. It is desirable to keep this record to guard against losses. If two dealers should exchange notes or endorsements and put them in the same bank, these books would bring the fact to light. They are placed on the directors' table on discount days.

DISCOUNT LEDGER.

Balance as Drawer or Endorser	As Drawer or Endorser		Number	When Due	Names and Remarks	As Payer		Balance as Payer
	Dr.	Cr.				Dr.	Cr.	

LIABILITY LEDGER.

Name	No.	Endorser for	Due	As Principal	As Endorser	Remarks

From these ledgers the discount clerk ascertains the amount of discounts set down in the offering book. He keeps daily supervision over them, cancelling the paid notes as fast as they mature, by drawing a line across the figures without obliterating the record.

Some banks number their notes on the back and end with red ink, and file them in packets. A good many banks, however, do not num-

ber their notes, and are careful not to mar them, even by a pin hole, so that if, for any reason, they should wish to dispose of them, this could be done without the paper showing any indications of having been in the possession of a bank. For the same reason also, it is not desirable for a bank to have a note made payable to its own order. When thus made, it would appear on its face to be given in liquidation of an obligation of the maker to the bank. It is, therefore, desirable that notes be made to the maker's order, and endorsed to the bank if taken direct from him.

Notes are also transcribed on the discount ticklers; each note is under the date of its maturity, with a number and name of the payer and amount. The ticklers, which, as previously explained, are books of monthly duration, continue to receive additions by new discounts until within a few days of the transpiring date. They are kept added in pencil until that time and are finally closed in ink.

In some banks notes are filed without number. Those of each day are kept in a separate packet, and the packets are arranged in a consecutive order of dates. This plan is regarded more convenient when there as very many notes.

The discount clerk has the possession of the greater part of bills receivable, in which the resources of the bank are invested. These are in his custody, are deposited by him at night in a compartment of the vault assigned to him, and taken out on the next morning by himself. If any of the officers wish to examine notes they do so in his presence, or require him to show them. By this method his responsibility is kept distinct from that of the other clerks and officials.

The discount clerk is in frequent intercourse with the customers of the bank. The offerers apply to him after adjournment to find out what disposition has been made of their application. We are now speaking of the larger banks where such a clerk is employed. In a small bank the cashier may transact the entire business described in this chapter. When he appears at his desk to answer the questions of applicants on occasions when the money market is tight, his duty is by no means a pleasant one. Customers press toward his gate at the earliest moment, to ascertain whether their offerings have been accepted or rejected, and the letters A and R enable him to give a very short answer. When notes are rejected they are returned to the offerer in the original envelope.

The discount clerk, as will be seen from the foregoing description of his duties, does not receive or pay out any money. It is not easy therefore for him to perpetrate a fraud on the bank. Gibbons relates an instance which occurred in the second Bank of the United States. The discount clerk selected some notes after they had been discounted and filed away, which he thought would be least likely to be wanted before maturity, and through the help of an outsider, hypothecated

them for a loan of money. When the time of maturity drew near he selected others of longer date, and substituted them for those first abstracted, which were restored to their proper places in the files. The trick was discovered by the maker of one of the hypothecated notes, who called at the bank to pay it before maturity.

Sometimes a bank will rediscount a portion of its notes with other banks. It may desire to get possession of more funds, in order to pay the demands of depositors, or through fear of an increased demand. In other words, the loans which it may have made are transferred to another institution.

Discounted notes payable in other cities are transmitted by mail, and when advice of their payment is received a journal entry is made, charging the collecting bank and crediting "bills discounted" in the usual commercial form. Discount notes which are payable in other cities, are transmitted two or three weeks previous to their maturity.

CHAPTER XV.

COLLECTIONS.

The collections made by a bank are an important part of its business. They may be divided into three classes; checks on home banks that are to be paid through the Clearing-house or in the smaller places by direct exchange; checks on out-of-town banks; and notes, drafts and other instruments.

The collection of checks through the Clearing-house is described elsewhere. In the smaller places, where no Clearing-houses exist, the banks have an arrangement whereby, at stated times checks are presented to the drawers and exchanged, and the differences are paid in money or drafts on city banks.

The collection of checks, notes, etc., on out-of-town banks is more difficult; and what is worse, yields but little, if any profit. Formerly, the business was very profitable, the lowest charge in many banks for collecting checks at near points was a quarter of one per cent. while a charge three or four times as much was very common. Even two and three per cent. were not infrequent charges for collecting notes and drafts a thousand miles distant.

Banks now-a-days have arrangements with each other for conducting this business. Almost every bank in the principal cities has an arrangement with a bank in every other place of much importance in the United States. These arrangements differ very much, depending on distance and other circumstances. A convenient record should be kept of all arrangements. Some banks keep the record in the form of the correspondence relating to the terms, but while it is desirable to retain this, a much briefer and more convenient record can be made in a book for that purpose.*

In collecting checks the first step is their proper transfer to the bank. Generally, when a depositor puts checks, notes and other instruments in a bank for collection, he desires to pursue one of two courses—either to retain his ownership of them and use the bank as his agent for collecting the money, or of parting with his ownership at once, whereby the bank in which they are deposited becomes the owner. If he desires to retain his ownership this can be done by

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*See form at the end of this chapter.

endorsing them "for deposit" or "for collection," or by any form of words clearly indicating his purpose. Whatever may be his reasons for thus endorsing them need not concern us; his right to do so is unquestioned, and whenever a check is thus endorsed, it is within his control and can be recalled at any time before its collection.

Furthermore, when this agency or trust relation exists, the money collected belongs to the principal depositor; and should the agent or any sub-agent fail, while having the money in its possession, he could rightfully claim and recover it, whenever he could identify it. Thus its trust character is preserved until it is sent to the first bank, where the check was deposited, and is mingled with other funds belonging to the depositor. All endorsements, therefore, which are intended to preserve the ownership of paper deposited for collection have that effect; those through whose hands it may subsequently pass are only agents or sub-agents of the owner, and the proceeds, like other trust funds, belong to him unless they are so mingled that identification is impossible.

Again, a depositor may endorse his check in blank and thereby transfer the title to his bank. This is often done. When it is, the bank becomes the owner and if collected by another bank to which it was sent, the proceeds can be applied by it to discharge a debt owed by the sending bank. Its right to do this was long ago decided by the highest federal tribunal.

Again, a bank in which a check is thus deposited with a blank or general endorsement may seek to control it by converting the general, into a special endorsement, and when this is done, its course cannot be diverted by any subsequent endorsement inconsistent with the one thus made.

Many banks, however, have accounts with each other, as individuals have with banks, and are debtors and creditors to each other. When this relation exists, then the money often collected by them as agents is subsequently used, whereby they render themselves debtors for the amount. Why do banks establish the debtor and creditor relation instead of continuing to preserve the agency relation? To preserve the agency relation the money collected by the agent must not be used or diverted, but kept as trust money and transmitted to the owner. Consequently, the money becomes unprofitable to any bank through whom it may pass, as it cannot be loaned for any time however short. As banks prefer to use it, consequently by far the most general relationship existing between banks in collecting money is that of debtor and creditor.

Another important consequence of endorsing checks "for collection" is, the endorsers do not incur any responsibility. An endorsement "for collection" is merely a direction to collect, nothing more. If such a check has been raised before depositing it for collection and has passed through successive collectors, similarly endorsed, the payee bank can-

not collect the money of them on the discovery of the alteration if they have paid it over. If the last collecting bank has the money, it could not keep or remit the same, but would be obliged to refund the excess to the payee bank. If it had remitted the amount to some other bank, or perhaps the bank that first received the check for collection, the payee bank would be obliged to resort to the bank still having the money, or it may be even to the depositor himself for the excess. As such endorsements have a meaning so limited, they have become distasteful to endorsees, and their use is rapidly passing away; and endorsers have returned to the former practice of making the regular endorsement, "Pay to the order of ——," which carries responsibility. By the negotiable instruments law enacted in 1897 by the states of New York, Connecticut, Colorado, and Florida, it is provided that every person negotiating an instrument by delivery or by a qualified endorsement warrants:

1. That the instrument is genuine and in all respects what it purports to be.

2. That he has a good title to it.

3. That all prior parties had capacity to contract.

4. That he has no knowledge of any fact which would impair the validity of the instrument or render it valueless.

A word concerning the crediting of checks in a depositor's passbook, that are not to be immediately collected. Once this was not done until they were collected, but competition for business in many places has become so keen that banks have fallen into the deplorable practice of crediting them as cash and permitting depositors to draw immediately against them. Some of the modern smart business men, through the generosity thus shown to them by banks, obtain a large amount of funds without paying any compensation whatever, besides getting their checks collected without charge. Such crediting, however, is regarded only as provisional, and whenever checks are not paid they are charged back. Depositors can also be held on their endorsements. The lien of a bank for such advances on any money that it may have in its possession is unquestioned.

After receiving checks they are assorted for the purpose of sending them to the bank's respective correspondents for collection. The next step is to enter them in the ledger to the debtor of the accounts of the banks to which they are to be transmitted. They are now ready to be sent away. Those sent to each bank are accompanied with a letter briefly describing them.* If any special directions are needful concerning their collection, these are added.

In selecting agents to make collections a bank must exercise care, and if negligent in this regard is responsible for any loss that may result. But if a bank should be neglectful and select an agent whose

*See p. 196 for letter.

conduct did not justify the trust reposed in him, who should collect the money and fail or divert the same, whereby it could not be recovered by the sending bank, it would be responsible to its depositor.

Very often an agent to which checks and other instruments are transmitted for collection are sent by it to some other bank for that purpose, located nearer to the place of the drawees, or where they are payable. And before the collection is completed and the proceeds are sent to the second bank, it may fail. Who shall be responsible for the loss? Two rules prevail in the different states. In the smaller number the second bank is responsible to the first bank for any loss occasioned by the failure of the third bank, or sub-agent, and this is the federal rule; in a larger number of states every agent, or sub-agent, performs its duty when exercising proper diligence in selecting another agent to assist in making the collection. For example, if a check was deposited in a bank in Philadelphia, drawn on a bank in New York, a dozen miles from New York City, the Philadelphia bank would be justified in sending the check to a reputable bank in New York City for collection. The depositor would have no reason for assuming that the Philadelphia bank had an arrangement with a bank in Newark for making collections in that place. Nor would the law require the Philadelphia bank to send the check to a bank there for collection. So, too, the New York bank would be justified in sending the check to a reputable bank in Newark; it would not be required to make the collection directly itself. And if the Newark bank should fail after collecting the money and before sending the amount to the New York bank, it would not be liable to the Philadelphia bank for the default of the Newark bank, nor would the New York or Philadelphia bank be liable to the depositor. But in some states the New York bank would be liable to the Philadelphia bank, and this, we repeat, is the federal rule. It was first established by the highest court in New York in 1839.

When notes are received for collection the bank treats them somewhat differently from checks. They are first entered by the collection clerk in the customers' book, after careful examination. Informality of endorsement, obscurity of date, or other accident might render the bank liable to the holder, although it was acting merely as a collection agent. The clerk must scrutinize every note carefully before entering it, and must always require the final endorsement of the owner, so that it may not be placed to the wrong credit when due. Banks generally will not receive for collection notes that have been disfigured or changed after issue by the drawer; nor will they receive them from strangers on any terms.*

---

*Promissory notes are transferred by endorsement from one merchant to another in settlement of debts, until the time for their maturity, when, of course, they must be presented for payment. There

The clerk marks on each note the date of its maturity. If he should mark it one day too late, and the drawer should fail to pay, the bank would be liable to the owner, because the notice of the protest to the endorsers would be too late to hold them. A careful clerk will revise his "timing" of notes so as to guard against any error of this kind.

Dishonest customers have been known to mark a wrong date of maturity on notes for the purpose of "catching" the bank; in other words, of making it liable. The bank could not escape by showing that the wrong date was the customer's, without proving that he intended to render the bank liable. It must be exact in its own business, and cannot escape by showing that it adopted the errors of others.

After the notes have been "timed," they are numbered on the

---

are several varieties of endorsement which may be briefly mentioned. An endorsement may be (1) in full, or (2) in blank; it may be (3) absolute, or (4) conditional; it may be (5) restrictive; it may be (6) without recourse on the endorser; and there may be (7) joint endorsements of the instrument; (8) successive endorsements, and (9) irregular ones. An endorsement in full mentions the name of the person in whose favor it is made, and to whom, or to whose order, the sum described in the note is to be paid. An endorsement in blank consists simply of the name of the endorser written on the back of the instrument. "The receiver of a negotiable instrument endorsed in blank, or any bona fide holder of it, may write over it an endorsement in full to himself or to another, or any contract consistent with the character of an endorsement, but he could not enlarge the liability of the endorser in blank by writing over it a waiver of any of his rights, such as demand and notice." By an absolute endorsement the endorser binds himself to pay on no other condition than the failure of the prior parties to do so, and of due notice to him of their failure, while a conditional endorsement contains some other condition to the endorser's liability. An endorsement may be so worded as to restrict the further negotiability of the instrument; it is then called a restrictive endorsement. The words "for collection," which are frequently written on notes that are put in a bank to be collected, render the endorsement restrictive. The endorser in such a case may prove that he is not the owner of the note, and did not mean to give a title to it or its proceeds when collected. Such an endorsement merely makes the endorsee agent for the endorser in collecting the note. The sixth kind is a qualified endorsement, or endorsement without recourse. This consists in writing the words "without recourse," or "at the endorsee's own risk" on the back of the note. The endorser is then a mere assignor for its payment. A joint endorsement is made when a note is payable to several persons who are not partners. Successive endorsements are those made by several persons on a note, the legal effect of which is to subject them as to each other in the order they endorse. The endorsement imparts a several and successive, and not a joint obligation. Lastly may be mentioned irregular endorsements, which may originate in various ways. But in all cases an endorser guarantees the genuineness of all the preceding endorsements.—See Daniel on Negotiable Instruments, section 694.

back and end, and recorded in the COLLECTION REGISTER a page of which is elsewhere given. From this book the notes are copied into the TICKLERS, forms of which are herewith shown:

COLLECTION TICKLER.

FORM NO. 38. MONDAY.....189

BANK NO.	PAYER	FOR WHOM COLLECTED	ADDRESS	No. or Date of Letter	INT.	EX.	AMOUNT	REMARKS

COLLECTION TICKLER.

THURSDAY,.....189

No. or Date of Letter	Payer.	Where Payable	To Whom Sent.	For Whom Collected	Amount.	Ck.	Remarks.

DISCOUNT TICKLER.

THURSDAY.....189

FORM NO. 39.

BANK NO.	PAYER.	ADDRESS.	ENDORSER OR COLLATERAL.	AMOUNT.	INT.	REMARKS

DISCOUNT TICKLER

FORM 29. MONDAY,.....189

No. or Date of Letter	Payer	Endorser	Where Payable	To Whom Sent	Amount	Ck	Remarks

Notes should be deposited ten days or longer before maturity, so that there may be time enough to pass them through the several books in the bank, and to serve notices on the payers, though this practice, as we have already remarked, is not so general as it once was. Merchants, however, are constantly receiving short-time drafts, and these cannot be deposited long before the time of payment. Other circumstances often prevent their deposit until very near the time of maturity, for example, the pledging of them to secure loans.

The clerk of this department is responsible for the safekeeping and production at all times of any note or draft deposited in the bank. If payable in the city where the bank is located, he can produce it; if sent elsewhere for collection he can show what he has done with it.

Notes or drafts which are payable in another place are in some banks recorded in a foreign collection register. In those doing a smaller business the regular collection register may be made to suffice by a special column ruling. In the foreign collection register are recorded the place of payment, and the name of the correspondent to whom the paper is sent for collection, with the date of its transmission. In a small bank a column is provided in which to record the fact and date of payment, or of return if unpaid. In other small banks, the foreign collection register may contain the only record of such paper, obviating entries against the collecting bank, until payment is advised.*

It is the practice of many banks to make their collections for a district or county through one bank which has established correspondence with all parts of it. But the large banks desire so far as possible to make their collections direct. Their notes are then presented more promptly, returns are received more quickly, and country business is cultivated more successfully by thus having reciprocal accounts.

When a bank is employed by another to collect notes within a particular district, the clerk opens another book and records on the page appropriated to the National Bank of Albany, for example, all notes that fall within the circuit allotted to it. He stamps or writes on the back of each note below the other endorsements,

* See form at the end of this chapter.

Pay the National Bank of Albany, Albany, N. Y

Or Order, for Collection for Account of

ARCTIC NATIONAL BANK, N. Y.

THOMAS JONES, Cashier.

After the letter enclosing the notes has been copied it is sent by mail to the collecting bank.

When drafts or notes for collection are payable at places where the bank has no regular correspondent, they are sent to a bank in such place "for collection and remittance." If there is no bank or banker of established credit there, the collection would not be received. When the note or draft is paid, the collecting bank usually remits at once a check for the amount, less the charge for exchange, if any. The check will be on a bank either in a city from whence the collection has come, or on such other point as instructed by the bank owning the paper. The bulk of checks remitted for collections are drawn on New York, and many on Boston or Philadelphia. Such collections are desirable at points where a surplus of exchange is created, as they afford a means of working it off at a small profit.

When they are not paid, usually they are returned, or held for further instructions. When returned, the following form has been found very useful:

No...... *$*.....

COLLECTION RETURNED BY

Indiana National Bank.

Indianapolis,.....*1900.*

.....

.....

Reason for non-payment, if any given, endorsed on back of item.

.....

.....

.....

The best plan of using the slip is to print it in a book form, six or twelve on a page, and as many pages as may be desired. Then a carbon copy is taken of a page and retained. The mode of making this copy is simple indeed. A carbon sheet is put beneath a page of

forms, and in filling out these every mark is transferred to another page beneath the carbon paper. This sheet is fastened securely in the book and thus a perfect record of the slips is preserved.

Instead of using the collection register for preserving a record of the collection, the following form is now used quite extensively:

M. B. WILSON, President. W. F. CHURCHMAN, Cashier

THE CAPITAL NATIONAL BANK.

Indianapolis, Ind. _____ 189

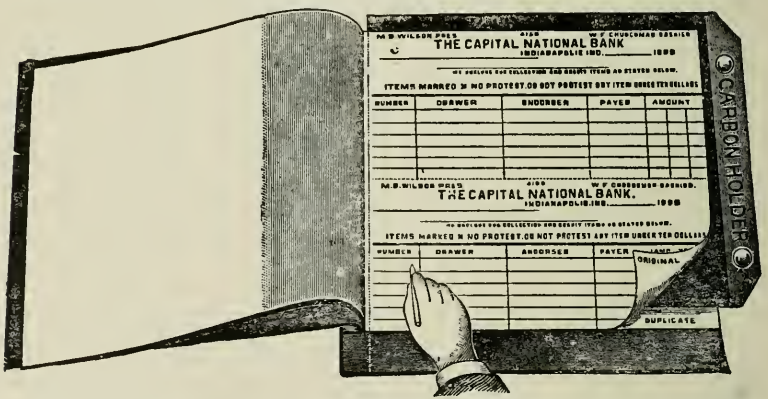
_____

We enclose for collection and credit, items as stated below:

ITEMS MARKED D NO PROTEST. DO NOT PROTEST ANY ITEM UNDER TEN DOLLARS.

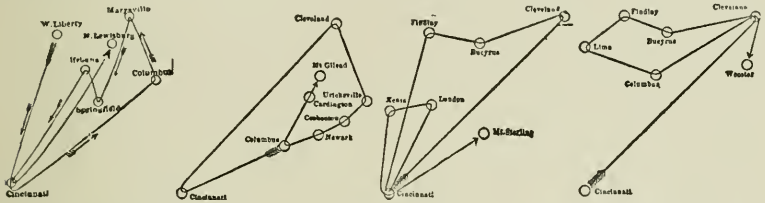
Number.	DRAWER.	ENDORSER.	PAYER.	AMOUNT.		

The mode of using it is so apparent that no lengthy explanation is needful. The blank is filled up and by the carbon process, which has just been explained, a complete record is transferred to the page beneath the carbon paper. Generally, two forms are printed on a page, as will be seen from the folowing cut:



The question has been often asked, though not clearly decided by the courts until a few years since, is a bank to be regarded as negligent which does not send collections by the shortest and most direct course? As is well known, banks prefer, for obvious reasons when making collections, to keep within the circle of their corre-

spondents; and in doing so often send to a correspondent at some other place, when having none at the place of location of the drawee bank, hoping that it may have an arrangement with a bank in such place for making collections. But it may happen that the second bank has none there, nor the third bank, which receives it, nor the fourth,—in truth, it may pass through half a dozen or more before reaching a bank in the same place as the one on which it is drawn. The following diagram represents the travels a few years since of some checks among banks in Ohio:



A week or more may be spent in sending and collecting a check drawn on a bank a few miles from the bank in which it was first deposited. Suppose in consequence of this delay the drawee bank should fail before the arrival of the check, but which would have been received in time and paid if its transmission had been direct, is the first bank to be regarded as negligent in making the collection, and responsible for the loss? The courts in Nebraska have so decided.* If those of other states are likely to maintain the same view, evidently banks must exercise greater care or have some understanding with their depositors in order to avoid loss.

The important question remains for consideration, What shall a bank receive in payment of a check, note or other instrument? Without special authority, or shielded by usage, a collecting bank can receive only money in payment.†

But this is not the law everywhere. In some states a bank can take another check from a bank, banker, other corporation or person indifferently as conditional payment. And wherever Clearing-houses exist, checks are usually sent through them for collection which are drawn on the members. If they are drawn on individuals who are not engaged in the banking business, or private bankers, or nonclearing-

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*First National Bank v. Miller, 37 Neb. 500. See a good paper on this subject by T. B. Paton, in Proceedings of American Bankers' Association, 1893, p. 46.

†In Whitney v. Esson, 99 Mass. 308, the court declared that "it is not a reasonable usage that one who collects a draft for an absent party should be allowed to give it up to the drawee and sacrifice the claim which the owner may have no prior parties, upon the mere receipt of a check which may turn out to be worthless."

house banks, they are presented for payment, and either they are paid or a check is taken which is drawn on a bank that is a member of the Clearing-house, or which clears through a member.

As the usage varies banks ought to know the law in their respective states, and whenever only money can be safely received, to insist on its payment, or to obtain authority from their depositors for whom collections are made to receive other checks in payment. All difficulty might be removed by a contract with depositors inserted with others of a kindred nature in their pass books.

A closing remark concerning charges for collection. Every banker knows that the present method of collecting without charge and of making free advances on collection items, expecting that, in the indefinite future, the so-called depositors will really have profitable balances on which enough can be made to equalize all former generosity, is utterly indefensible. It is easy enough to introduce a reform, only one condition is needful—harmonious action. So, too, nothing is easier than to adopt practicable plans for co-operative action in making collections in the larger places and thereby greatly lessen the expenses; the only condition in adopting them is the willingness of all banks to unite. Though constantly admitting that they ought, none are ready to act. Each is afraid that some other will gain an advantage. Until they are willing to unite, nothing is more profitless than to form plans for co-operative action.

The following letter, written by Robert L. Archer, assistant cashier of the First National Bank, Huntington, W. Va., and first published in The American Banker, relating to the collection of country checks is worthy of presentation here:

The cost of collection of these checks should rest in one or two places, either with the drawer of the check or the person who cashes or receives credit for it. They are the persons who receive the direct benefit, and should stand the cost. In no event should the banks bear the cost without remuneration. In my opinion, the banks should charge on all foreign checks they may receive, and send them for collection direct to the points on which drawn, except those points which, by reason of their location and other local reasons, might be able to organize themselves into country clearing houses. In that event the item should be sent either to the clearing house or the clearing house bank designated to receive them.

I append a copy of an agreement made by the banks of this city in May, 1895. That agreement has been in continuous operation ever since that time. Under it the revenue derived from exchange charges is quite satisfactory. By its terms we refuse to receive from our reciprocal correspondents items other than those which originate with them. If they do send us items received by them from other banks we charge them the schedule rate on such items. We, of course, decline to collect for other banks any items other than those on this point.

Now, if the banks in the smaller cities and towns all over the country would unite on a plan like this, they would soon force all banks to send direct, or else through country clearing-houses that might be established.

It is esential to the universal adoption of this plan that the banks should charge on each foreign check cashed or deposited. They should charge enough to reimburse them for the cost of collection and enough in addition to pay for the use of the money until returns are received.

I have before me as I write a check drawn on our bank and deposited in Columbus, O. That city is only 150 miles northwest of us. However, the Columbus bank sent it to Philadelphia, which is several hundred miles east of here; Philadelphia sent it to Baltimore; Baltimore sent it to Piedmont, W. Va.; Piedmont sent it to Parkersburg, W. Va.; Parkersburg sent it to Charleston, W. Va., and Charleston sent it home. Each bank was trying to collect the item without cost. However, Charleston had to "hold the bag," and paid the regular rate on the check.

The plan will, perhaps, be condemned by those banks who attempt to collect on all the points in their State, and often on points in other States, and then unload these items on their reciprocal accounts, expecting them to remit exchange on request without cost.

The plan has the advantages of simplicity and an adequate return for the time and labor expended.

Below find a copy of the agreement referred to:

The undersigned banks in the city of Huntington have, by agreement, adopted the following rules relative to the handling of checks, cash items and collections received from correspondents and others:

(Effective from this date.)

1. From correspondents with whom we maintain reciprocal relations we will continue to receive at par items on this city that are received from their depositors, or that originate within the State's limits.

2. We cannot take, except for collection and remittance when paid, items on other banking points in this section.

3. We will expect our correspondents of reciprocity to refuse to receive Huntington items, except from their local clientage, requesting banks and firms outside of State, to send for collection direct.

4. On all cash items and collection sent us by banks and firms for remittance in New York or Cincinnati exchange on day of payment, the following charges will be made:

On all sums of $100 and under, 15 cents.
On all sums of $100 and up to $500, 15 cents per $100.
On all sums of $500 and over, 1-10 of 1 per cent.

5. To cover postage, work and cost of presenting, a charge of ten cents per single item will be made on mercantile collections returned unpaid.

FIRST NATIONAL BANK.
HUNTINGTON NATIONAL BANK.

Huntington, W Va., May 1, 1895.

The following forms are also used in making collections. Form 32

[LEFT PAGE.]

COLLECTION

FORM 28. COPYRIGHTED 1886, BY LEVEY BRO'S & CO., INDIANAPOLIS, IND.

When Received.	Number	ACCOUNT OF	No. or Date of Letter.	MAKER OR DRAWEE	PAYABLE AT
	00				
	01				
	02				
	03				
	04				
	05				
	06				

[LEFT PAGE.]

DOMESTIC

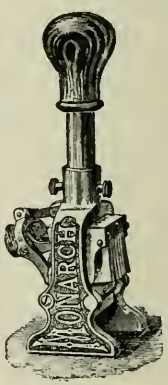
FORM 32.

Our Date	Our No.	Their No. or Date L.	OWNER.	P. O. ADDRESS.	PAYER
	00				
	01				
	02				
	03				
	04				
	05				
	06				

is a Domestic Collection Register. The book is used for keeping a record of collection items left with the bank by its customers. This register begins with 00 and extends to 99 in two leaves, and is thus printed to the end. After 99 is reached additional numbers are easily formed by adding the proper prefix to the printed numbers. Thus 156 is formed by adding 1 to the 56 on the fourth leaf. Of course, a similar number is given to each item before the record of it is made in the book. The numbering of the items, especially in large banks, is done with a hand-numbering machine. The following cut represents one of these machines:

Style of Figures:

12345
12345
12345



[RIGHT PAGE]

REGISTER.

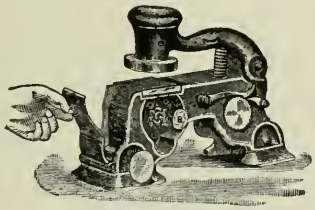
SENT TO	When Sent	Date.	Time.	Due.	Amount.	When Paid	REMARKS.

[RIGHT PAGE]

COLLECTIONS.

Date	Time.	DUE.	Rate Int'st	AMOUNT.	Amount Interest	Exchange	Amount Remitted.	REMARKS.

When a collection is paid, another stamp is used for a similar purpose.



This machine consists of an automatic ribbon, the frame of which is cast iron, heavily japanned, the dating wheels and die are of hardened brass, and the indicators are of polished nickel. Of course, the wording may be whatever is desired.

Two forms of collection ticklers, Nos. 30 and 38, are given in addition to those appearing elsewhere.

CHAPTER XVI.

CORRESPONDENCE.

Nearly all the correspondence of banks is on paper prepared for that purpose. A great variety in form, size and color is used, and the printer is constantly exercising his art to add new varieties. It need hardly be said that a good quality of paper ought to be used, but this in some parts of the country cannot always be easily procured. Nor are printing houses equipped with good type and presses and masters of their art to be found everywhere. But if a bank is located in a small place, where good paper cannot be procured and tastefully printed, it had better take the trouble to send to a bank printing house, even at a considerable distance, for its stationery and obtain a supply befitting the business than to use an inferior kind. Indeed, the farther a bank may be from a good printing house will its use of tastefully prepared stationery betoken its character. A bank on the frontier using stationery of the most modern approved kind furnishes sure evidence that the manager has a due appreciation of the material forms pertaining to his business. When organizing, he can easily apply to some house making a specialty of furnishing bank supplies for samples of paper, letter heads, etc., what styles and sizes are in most general use, and thus start well equipped, so far as materials go, for making a good impression on his correspondents.

Of course, the form of his letters is still more important. And it is to be regretted that so much imperfection is still seen in bank correspondence. Many a man has shown a marvelous aptitude for business who could not write his name, but his ability to write well would not have diminished aught from his reputation. We cannot help believing that many a bank official does not know how poorly he writes; and lacks a due appreciation of the importance of a clear, concise business style, and of the impression which a well written letter makes on another who has a thorough knowledge and appreciation of good business writing. A well written letter is a mark of intelligence, and though a man may express his ideas in writing in a very infelicitous manner and yet possess every other quality of a good banker, his lack in this respect often tells against him. Unless he is known personally, others judge of him from his correspondence addressed to them; and a different impression is naturally made by a letter badly written than by one revealing an intelligent writer.

Brevity is often desirable, but in bank correspondence it is sometimes carried too far. especially by those who most dislike to write. Any writing is faulty that is so condensed or abbreviated as to be obscure. Conciseness is a great merit, but clearness of expression is of the highest importance. A letter should always be read over by the writer who should assure himself that the person to whom it is addressed will understand its contents.

It need hardly be added that all letters should be copied and indexed in such a way that they can be readily found. The best forms of books for preserving copies and modes of indexing depends on the amount of correspondence carried on by a bank. One located in a large city and making collections in every part of the Union, sending out several hundred letters a day evidently needs a system quite different from that of a bank sending but a few letters daily. The reasons for copying telegrams are quite as obvious as those for preserving any other correspondence.

In using the mails, What shall be said? It may be that letters should be registered more generally than they are, as their safety is enhanced by registering them. This will be evident from a description of the system. The letter to be thus sent is put in the mail pouch and is recorded, while two witnesses, who are postal clerks, make a proper record that it has been put there. The locks on these pouches are of a more complex type than those on ordinary mail bags. The bag itself is sent in the same manner as any other. A receipt for every registered letter is sent by the postmaster at its place of destination to the sending postmaster. Every receiver of a registered letter signs a receipt therefor which is returned to the sender. The postoffice department assumes no special responsibility for the safe carriage of registered letters. Nevertheless, this mode of sending is deemed so safe that the banks are making much use of it for sending money. It is insured and then entrusted to the registered mail system for safe delivery. Formerly, it was sent by express, and the use of this new mode has occasioned no little criticism. It is contended that the mode is too risky. But those who use it think otherwise and are likely to continue to do so, or until express companies greatly reduce their charges.*

Many letters are partly printed now-a-days to save time in their preparation. No little ingenuity has been shown in preparing blanks relating to many matters. One of these, intended for busy cashiers who do everything and have but little time to write, is an answer to correspondents concerning their collections. The form is herewith given:

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*See articles in New York Evening Post October, 1897, and by Charles R. Hannan and F. H. Stark, in American Banker, November 3, 1897, page 2129.

First National Bank.

Kane, Pa., September 1, 1899.

SIGHT DRAFT on SMITH BROS. returned herewith. Reasons for refusal checked below (X)

Our charges..... cents, please remit.

JOHN JONES, Cashier.

Payment refused, no reason given.	Claims credit for goods returned.
Acceptance " " " "	Wants extension of time.
Notice given, but no response.	Account not due.
Failed	Never accepts drafts.
Closed up.	Cannot pay at present.
Not in town.	Does not owe this.
Parties cannot be found.	Has paid bill.
Refuses to pay exchange.	Should be less freight.
Amount not correct.	Draft not according to agreement.
Goods not received.	Will send check.
Goods not satisfactory.	X Party will write.
Goods returned.	Parties have written.

One word more concerning acknowledgments. With the growing tendency to abridge the ways of doing business, the practice is declining of making acknowledgments, banks acting on the presumption that letters and remittances have been received that were expected in due course of business. Are not banks going too far in this direction? Surely with the printed forms now in use, or that may be easily prepared, and with the existing cheap rates of postage, banks can afford to acknowledge everything received that is needful to complete the transaction.

CHAPTER XVII.

THE KEEPING OF THE LAWFUL MONEY RESERVE BY NATIONAL BANKS.

The national banks are required to keep always on hand, in lawful money, a sum equal to a prescribed portion of their deposits. The banks in the central reserve cities, New York, Chicago, and St. Louis, are required to retain twenty-five per cent. of their deposits; the banks in the other reserve cities, numbering twenty-eight, Albany, Baltimore, Boston, Brooklyn, Cincinnati, Cleveland, Columbus, Detroit, Denver, Des Moines, Houston, Indianapolis, Lincoln, Kansas City, Louisville, Los Angeles, Milwaukee, Minneapolis, New Orleans, St. Paul, Washington, Omaha, Philadelphia, Pittsburg, Portland, Savannah, San Francisco, St. Joseph, are also required to keep twenty-five per cent., but one-half of this amount can be kept with a bank or banks in the central reserve cities. The banks in all other places must keep a reserve of fifteen per cent., two-fifths at home, and the other three-fifths, if they desire, may be kept with a bank or banks in any of the nineteen reserve and central reserve cities. In thus acting as reserve keepers the banks are usually termed "reserve agents."

What is included in the "lawful money" that must be kept as a reserve? Briefly, United States gold coin, standard silver dollars, fractional silver coin, certificates for gold coin deposited with the United States Treasurer, certificates for silver dollars United States legal-tender notes, certificates for legal-tenders deposited with the United States Treasurer, and gold Clearing-house certificates.

The next inquiry relates to the deposits against which a reserve must be held. These are (1) individual deposits; (2) United States deposits, which consist chiefly of internal revenue collections deposited by the internal revenue officers; (3) deposits of United States disbursing officers, consisting largely of funds deposited by paymasters of the army and navy; (4) any declared but unpaid dividends due to shareholders; (5) and lastly the balances due to and from banks and bankers.

There is one peculiarity in determining these balances. If the aggregate amount due to other banks, whether state or national and bankers, is greater than the amount due from them, a reserve must be held against the balance as in the case of other deposits, but if the balance due from them is equal to or greater than the amount due to them, then the item is excluded from the calculation and the amount of reserve must be determined as though there were no balances whatever due to or from any bank or banker.

Against the deposits held by a bank various items or resources may be offset before determining the final amount against which a reserve must be held. These items are (1) exchanges that are to be paid through the Clearing-house; in other words, checks on other banks in the same place which are members of the Clearing-house; (2) checks on other banks in the same place which do not belong to the Clearing-house; (3) bills of other national banks, but not those of its own issue; and (4) lastly after the reserve required is ascertained there may be a reduction of the five per cent. redemption fund held by the United States Treasurer to redeem its circulation, and consisting of the notes of the government.

Having now ascertained the different items included in the term deposits and the deductions that may be made, it is an easy process for a bank in a central reserve city to determine the amount against which it must keep a reserve of twenty-five per cent.

To illustrate more clearly the mode of computing the reserve of a bank the following example is given:

LIABILITIES.*

Due to National banks		$205,866
Due to State banks and bankers		25,559
		$231,425
LESS.		
Due from other National banks	$125,335	
Due from State banks and bankers	100,000	
		225.335
		$6.090
Dividends unpaid		3,867
Individual deposits		2,857.628
United States deposits		705,000
Deposits of the U. S. disbursing officer		
Gross amount		$3,572,535
DEDUCTIONS ALLOWED.		
Exchanges for clearing-house	$107,950	
Checks on other banks in the same place	513	
National bank notes	17,340	
		$125,803
		$3,446,782
Twenty-five per cent. of this total amount is the entire reserve required, which is		$861,695
Deduct 5 per cent. redemption fund with the U. S. Treasurer		2,250
Net reserve to be held		$859,445

*This is taken from George M. Coffin's excellent Hand-Book for National Bank Officers, p. 11.

Some additional figuring is needful to determine the amount of reserve that must be held by a reserve bank which is not in a central reserve city unless it keeps its entire reserve at home. Of course, any bank can do this; but generally the banks not located in the central reserve cities keep that portion of the reserve permitted by law with other banks, and when this is done then some other questions enter into the calculation.

This class of reserve banks, it will be remembered, must keep one-half of its reserve, 12 1-2 per cent., at home; the other half may be kept in banks in the central reserve cities. It often happens that a reserve bank has a reciprocal account with a central reserve bank instead of simply depositing a portion of its reserve with it, and there are balances due on both sides growing out of collections or other business done by each for the other. How shall these balances be treated? If the balance due from the central reserve bank on this account exceeds the balance due to it, the excess or final balance is available for the 12 1-2 per cent. reserve that may be kept there. But if the final balance is due to the central reserve bank, then the amount of such balance is to be treated as a deposit "due to other national banks," against which a reserve must be held as previously explained. Though the balance due from a central reserve bank to any other bank may be treated as belonging to the reserve fund that may be kept with other banks, it can never be used to make up a deficiency in that portion of its reserve, 12 1-2 per cent., or one-eighth of its deposits which it must always keep at home. This rule is inflexible. But the excess may be used to reduce the liability on deposits having the effect, to reduce the balance due to banks or bankers, even perhaps to exclude altogether that item from the calculation. To repeat, when the addition of the excess with the reserve banks added to the amount due from other banks and bankers equals or exceeds the amount due to them, the item is then dropped from the computation of the reserve; but when the addition of the excess to the amount due from other banks and bankers is less than the amount due to others, then the effect of the excess is to reduce the amount against which a reserve must be held, as previously explained.

When the excess is used to reduce the amount against which a reserve must be held, the calculation becomes somewhat intricate if a bank is desirous of reducing its deposit to the smallest possible amount permitted by law. Thus, suppose after deducting from the deposits, the various items above mentioned the balance is $1,263,250, against which a reserve of twenty-five per cent. must be held, one-half of which, 12½ per cent. or one-eighth of its entire deposits, must be at home and the balance with reserve agents. The entire amount of the reserve would be $315,817—the amount required to be at home $157,908, and the amount that may be kept with reserve agents $157,908.

Suppose the bank has with a central reserve bank or agents,

$210,672, or an excess of $52,766 above the legal amount that might be thus kept. This excess may now be used to reduce the balance against which a reserve must be kept, having the effect of reducing the amount of the reserve. Thus by deducting $52,766 from the first balance of $1,263,350, the second balance would be $1,210,484. But the total reserve required to be kept for this would be $302,621, or $151,311, at home and as much with the reserve bank, instead of the $157,906 first ascertained,—a difference of $6,595. But it is evident that the second balance of $1,210,484 may still further be reduced by deducting the above excess of $6,595, not required by law to be kept with the reserve bank to form its 12 1-2 per cent. fund. Deducting this, the third balance would be $1,203,889, and the total reserve would be $300,972, or one-half at either place $150,486. This, however, is an excess of $825 that need be kept with the reserve bank. Deducting this, the fourth balance would be $1,203,064, and the total reserve required $300,766, or a reserve at either place of $150,383. This is still an excess of $105 that need be kept with the reserve bank. Striking a fifth balance it would be $1,202,959, and the total reserve $300,739, or a reserve at either place of $150,369. This though is an excess of $14. Let us make one more deduction. The sixth balance therefore would be $14 less or $1,202,945. The total reserve required for this would be $300,736, and the reserve at either place $150,368. There would then be left an excess of a dollar,—an excess too small to effect any farther reduction.

Instead of resorting to this long method to ascertain the true excess, a shorter one has been discovered and is generally used. To the apparent excess add one-seventh of that amount and strike a new balance which will be the correct amount against which the reserve must be kept.

Another method may be used for ascertaining the true excess. Divide the apparent excess by eight and also each successive result in the same manner until there is no excess large enough to divide, and combine the results.

Thus the above apparent excess was.....	$52,766
The next excess would be.....	6,595
The next excess would be.....	824
The next excess would be.....	103
The next excess would be.....	13
The next excess would be.....	2
True excess	$60,304

In ascertaining the amount of deposits of a bank required to keep a reserve of fifteen per cent. the method differs from that of a reserve bank in one particular only. The exact excess in the possession of the reserve agent is ascertained by adding six ninety-firsts of the apparent reserve to that amount.

CHAPTER XVIII.

THE BOOKKEEPER.

Mathematical accuracy is one of the prime virtues of an accountant. It is nowhere more important than in bank bookkeeping. While the affairs of a bank are running along smoothly its customers are given little opportunity to judge of the capability and thoroughness of those who manipulate the books of account. But when the institution comes to grief, and the creditors are waiting in painful suspense to learn the fate of their deposits, the opportunities for determining how well the books have been handled are excellent. It is at such times that the public are taught to appreciate the value of accuracy, system and promptness. When it requires days, and, as is sometimes the case, weeks, for the bookkeepers to make up a statement of the condition of a suspended bank, the inference may be fairly taken that something is radically wrong. It may be the imperfections of the system in vogue, or possibly a weakness in the brain of the bookkeeper.

A good theory to follow in bank bookkeeping is one which each day presumes that the bank is to suspend payment before time for the doors to open the next morning. And not only so, but also one which presumes that the directors or proprietors are to require a complete financial exhibit of the bank's affairs within twenty-four hours from the time the suspension is announced. There can be no good reason why a complete statement should not be presented within a few hours at any time, if no crookedness has been practiced. It is not only important that the work of each day should be finished before the doors open on the morning of the day following, but that the work should be so performed as to enable the bookkeepers to make up a full exhibit without delay. Even in cases of defalcation and crookedness on the part of any one individual where several officers and clerks are employed, there would be no reasonable excuse for requiring days, and often weeks, in preparing statements for the public. Simplicity in method and an efficient clerical force will obviate the present prevailing difficulties.

It is not good economy for the manager of a bank to expect one clerk or bookkeeper to perform the labor of two. There can be as much of a mistake in employing not enough as too many. But, before considering the number to be employed, the fitness of each for the position should receive attention. Above all things, know that each

and every person doing clerical work in a bank is thoroughly qualified. Then see that the force is sufficient to have the work kept closely up, and require in all cases that no part is neglected. We would say to the bookkeeper of a bank: Demand that you be allowed a sufficient force to do the work punctually and in the best manner. If your request is refused it is better to resign than take chances in doing your duty when you know that important parts must be neglected. Banks show, as a rule, more wisdom in this respect than commercial houses. Yet there are but few banks in which an improvement might not be made by an addition to the regular force. This improvement would redound to the advantage of stockholders as well as the bank's customers.

The method of bookkeeping practiced in a bank may have much to do with the force necessary for performing the work properly. We cannot undertake in this treatise to go into the details of all the different systems in vogue. It is our aim, however, to give such explanations of the methods in most general use as will enable the reader to understand the principles and be able to choose a plan best adapted to his special needs. Important changes and improvements in bank as well as commercial bookkeeping have taken place within the past ten or fifteen years. A few years ago banks received a fair revenue from the sale of exchange. Remittances from one part of the country to another are still made almost entirely by means of bank drafts, but since the establishment of a currency which is at par throughout the United States, the rate of exchange cannot much exceed the cost of transmitting money by express, and the business of dealing in exchange by banks is no longer considered an important item of revenue. The change has had its influence upon bank bookkeeping.

The tendency has been, in bank bookkeeping, to abridge the work. There is still room for improvement in many institutions in this direction. It is a good idea, in all places where possible, to avoid rewriting items and amounts. We will first turn our attention to

ACCOUNTS OF DEPOSITORS.

The depositors' accounts, in an institution doing a general banking business, absorb much the greatest attention of the bookkeepers. Eternal vigilance is a prime virtue in their manipulation. Considering their numbers, the infinite multiplicity of items they represent, and the vast sums received and disbursed upon them, the small number of mistakes made in their keeping is worthy of consideration. It demonstrates the possibility of wonderful accuracy. The errors, at least those discovered, will not average one in a thousand transactions.

There is, perhaps, an unusual degree of accuracy exhibited in the work upon this class of accounts. The reason is obvious. An error, no matter how slight, is almost certain to be discovered by the depositor. Whether or not the error is reported to the bank officials, such

a discovery is painful to the bookkeeper. It forms a basis for suspecting other blunders; it may, too, involve serious difficulty. These are some of the penalties constantly in view, and they, no doubt, exert an influence.

In all branches of an accountant's work the probability that an error, if made, will be discovered by some one other than himself will invariably cause some weight upon vigilance and thoughtfulness. Where an error, if made, will be detected by its author, as is the case in some parts of the bookkeeper's work, and may be corrected before reaching others' eyes, a feeling of indifference is more apt to manifest itself. This suggests the importance of rotating the force employed in large banks, so that the work of each one will be examined by some one of the other employes. In England it is almost the universal practice to have a professional accountant go over, at stated periods, all the work of a bank. The plan is not much followed in this country, but it is being discussed in many quarters. Experience has shown that the examinations made by government officials are not a sufficient guarantee to stockholders and depositors that the published exhibits are faithful showings of the banks' condition.

One cause that has a tendency to bring about a high standard of accuracy in the treatment of depositors' accounts is that of special study in this direction. Much attention and skill have been directed to devising plans for keeping this class of accounts. We will presently illustrate some of these inventions. But let us first consider the elementary functions of a depositor's account.

BANK OF WRAY.

DEPOSITED BY

Wray, Colo. *190*

PLEASE LIST EACH CHECK SEPARATELY.

Currency		
Silver		
Gold		
CHECKS AS FOLLOWS:		
Total, $		

SEE THAT ALL CHECKS AND DRAFTS ARE INDORSED.

THE DEPOSIT SLIP.

In the 12th chapter of this work are described the duties of the receiving teller. Depositors come oftener in contact with the receiving teller than any other employe. It is this teller who receives the deposits. On page 212 appears a brief description of the depositor's pass-book. When making a deposit the depositor fills out a printed blank, upon which he

writes his name and a description of items making up his deposit, as in form here shown.

This "Deposit Slip," with the funds to be deposited and the depositor's pass-book, are handed to the receiving teller. The bills are counted and the items examined and checked off by the teller, who charges the bank in the depositor's pass-book with the full amount of the deposit, and files the slip ready for the bookkeeper. These slips are the bank's vouchers for the transaction.

THE DEPOSITOR'S PASS-BOOK.

The depositor's pass-book is a small account book. Upon the left-hand page, or debit side, the deposits are entered; the right-hand, or credit pages are used to enter up the checks of the depositor. It is the bookkeepers' duty to write up and balance the depositor's pass-book when left at the bank for that purpose. The depositor's account in the bank's ledger furnishes the data for writing up the pass-book. In the ledger account, however, the deposits which, in the pass-book, appear on the debit side are entered on the credit side. The checks are entered on the debit side of the ledger account. The reason of this transposition is, that the pass-book represents the depositor's account with the bank, while the bank's ledger shows the bank's account with the depositor.

THE ARCTIC NATIONAL BANK in Account with RICHARD WHITTINGTON.

Dr.					*Cr.*
Jan. 2.....	R. K.....	10,000	1,324 05	175 20	100
3.....	J. C.....	400	208 40	960 50	46 75
4.....	E. K.....	2,000		2,100	10 50
				137 10	305 10
			12 Checks returned.	5,420 50	1,240 80
			Balance.....		371 10
		12,000			12,400 00
Jan. 5.....	Balance.....	371 10			

The letters opposite the dates on the debit page are the initials of the teller who received the deposit. On the credit page are several columns in which the amounts of the checks or vouchers are entered. These checks are returned with the pass-book to the depositor. The balance, after having been added to the footings of the checks, is carried to the debit of the account preparatory to continuing the transactions.

DEPOSITORS' LEDGERS.

The postings to the depositors' accounts are sometimes made direct from the deposit slips on the one side, and from the checks on the other. The checks and slips, when thus posted, are first entered in a journal or register for the purpose of proving the cash and accounting with the tellers. This journal or register forms a part of

the general books of the bank. The ledgers containing the depositors' accounts are auxiliary to the general books. We mean by this that a statement of the bank's condition is made up independently of the depositor's ledgers. One account in the general ledger serves to show the liability of the bank to its depositors. In some banks the postings to the depositors' accounts are made from other books, usually called "journals." In some systems two journals are used, and in others only one. We give, in this connection, some illustrations of these journals. Though still used to some extent, the forms shown under the title of "debit journal" and "credit journal" have been mostly superseded by more modern devices. The form under the title of "deposit journal" is used by many country banks. It is simple, and well serves the purpose for which it is intended.

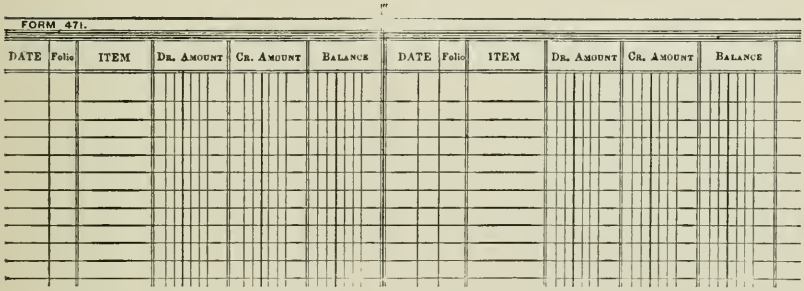
DEPOSITORS' LEDGER WITH BALANCE COLUMN.

Richard Whittington.

Date.	*Folio.*	*Items.*	*Debit.*	*Credit.*	*Balance.*
Jan 2....	27	Deposit		10.000	
2....	27	100, 46 75, 10 50, 305 10	462 35		9.537 65
3....	29	Dep		400	
		1240 80, 175 20, 960 50			
		2100, 137 10	4.613 60		5.324 05
4....	34	5420 50, 1324 05			
		208 40	6.982 95		*1.628 90*

The first column contains the debits or checks, the second column the credits or deposits, and the third column the balances. The balances are carried out every day after the deposits and checks have been entered up.

FORM OF RULING DEPOSITORS' LEDGER WITH BALANCE COLUMNS.



In the large city banks, where the depositors are so numerous as to require a classification of the accounts, several books are kept for summarizing the checks and deposits. The depositors' accounts are

*This balance is printed here in italics to represent an overdraft. In practice it would be written in *red ink*.

grouped thus: Names commencing with A to D, E to K, L to R, and S to Z. The checks and deposit slips are assorted so as to be entered up under the several classes or groups in separate journals or registers. The work of writing up must be commenced in ample time for entering the last check paid and the last check deposited almost immediately

DEPOSITORS' LEDGER WITH DOUBLE BALANCE COLUMNS.

Richard Whittington.

	462 35	305 10, 10 50, 46 75, 100.....	½	10.000	9.537 65
	4.613 60	21000, 137 10, 960 50, 175 20, 1240 80...	3	400	5.324 05
1628 90	6.952 95	208 40, 1324 05, 5420 50.....	4		

This represents a Depositors' Ledger with two debit and two credit columns; one column for item checks and one column for dates. The first column on the left shows the debits' balance or overdraft; the second column the totals of checks; the third, itemized checks and other explanatory remarks; the fourth, the dates; fifth, credits or deposits; and sixth, credit balances.

FORM OF RULING DEPOSITORS' LEDGER WITH DOUBLE BALANCE COLUMN.

FORM 463.

DATE	ITEMS	DEBIT	CREDIT	DR. BALANCE	CR. BALANCE

after the tellers close their windows. In the work of writing up there is precaution taken to leave sufficient space after the name has been once entered to add subsequent checks. This does not apply so much to deposits, as cases of more than one deposit to a name in a day are exceptional.

THE PRINCIPAL BOOKS.

The number and character of the books of a bank which make up the general set varies according to the volume of business transacted. The routine practiced is also dependent upon the extent of the transactions. For the purpose of illustration, we shall give in these pages a description of the books and routine best adapted to the needs of a bank of a moderate type.

Commencing with the organization of the First National Bank, we will follow the transactions of a period sufficient to embrace a history of the general routine. The preliminaries for organizing a banking corporation have been fully described under Chapter III. We will presume, therefore, that all the preliminary arrangements have been perfected. The bank is organized with a capital of $250,000. This amount is paid in by the shareholders. For the original entries of what has

transpired, we look to the minutes of the shareholders' meetings and the book of stock subscriptions in which a record of the stock certificates and the owner thereof is made, as shown by the form below:

REGISTER AND RECORD OF CERTIFICATES OF STOCK.

OWNER OF CERTIFICATE	RECORD OF ISSUE					Amount of Stock $100 per Share	TRANSFERRED					TO WHOM TRANSFERRED
	Date			No. Certif.	No. Shares		Date			No. Certif.	No. Shares	
	M.	D.	Y.				M.	D.	Y.			

The opening entry in the books of account is made in the general journal, a book with the ordinary two-column journal rulings. The account representing the certificates of stock is debited, and the account of capital stock credited for the amount of the bank's capital. Before any of the certificates have been issued to subscribers, they (the certificates) form the only resources of the corporation. They are the assets against the liability of the corporation for the amount of its capital stock. As the stock is subscribed for, the certificates go out, and the corporation holds the stockholders individually and collectively for the amounts thus issued. This operation is recorded by charging in the books to the account of "Stockholders" the amount subscribed for, and crediting the account of stock certificates. When the shareholders pay in their subscriptions, the general account of "Cash" is debited, and the account of stockholders credited with the payment. Thus far the records of these transactions are the same in all joint-stock companies.

In the General Ledger the account of "Stockholders" represents these several accounts collectively. A book called a "Stock Ledger" is kept for the purpose of keeping the accounts of these persons separately. The Stock Ledger is an auxiliary to the general set.

The capital having been fully paid in, a purchase is made of $220,000 in United States bonds, on which a premium is paid of $30,000. The bonds are deposited with the Treasurer of the United States at Washington, and in return the bank receives its national bank notes to the amount of $198,000, of which $9,900 must be exchanged for United States notes, to form the five per cent. redemption fund, kept with the United States Treasurer.

The premium on bonds, the ten per cent. of bonds not covered by circulation, and the five-per-cent. fund to secure redemption, together may be treated under one general title, they forming a reserve growing out of the bank's circulation. The title we have chosen is "Circulation Reserve." This is not arbitrary. The account represents an asset which, in the example usesd here, is $61,900. The premium paid in

on the bonds forms nearly one-half of this reserve. But so long as the present rate of interest holds, this resource is as substantial as so much money locked up where it cannot be used until the bank withdraws its circulation. The three items which, combined, make the reserve fund, or circulating reserve, could, if it were desired, be treated each under an independent title. It would, however, only encumber the books and serve no practical purpose in the end.

The first three entries in the journal could, in a case of the kind used as an illustration, be condensed under one journal entry. But, suppose, instead of all the stock being subscribed for at once, only a part had been taken. Then, too, presuming that the amount subscribed for had been only paid in part. It will be seen that each of the entries given would have been necessary for recording the operations, step by step, as they transpired.

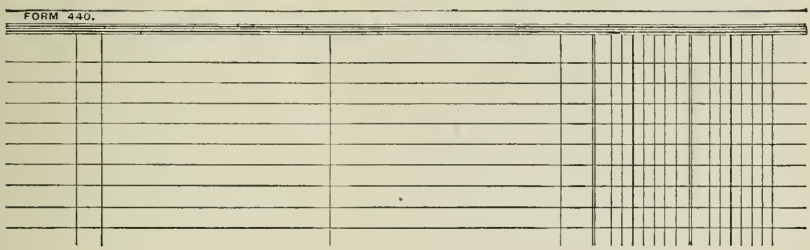
For all that has been done up to this time, it was not necessary that the company should have a place of business of its own. It may have had one, however, and got fairly under way before its circulating notes had been sent on from the Treasury Department. But presuming that our records represent the transactions in the order of their occurrence, we now find the new corporation ready to rent or buy a place to conduct its business, open its doors and receive deposits. Let us proceed to examine the history of what takes place, and record the various operations in the books of account.

GENERAL JOURNAL.—FORM 442.

Lunar City, July, 189....

	Stock Certificates	250,000	
	To Capital Stock		250,000
	Stockholders	250,000	
	To Stock Certificates		250,000
	Cash	250,000	
	To Stockholders		250,000
	United States Bonds	220,000	
	Circulation Reserve, (Premium)	30,000	
	To Cash		250,000
	Bank Circulation	198,000	
	Circulation Reserve, (Ten p. c. fund)	22,000	
	To United States Bonds		220,000
	Tellers' Circulation	188,100	
	Circulation Reserve, (Five p. c. fund)	9,900	
	To Bank Circulation		198,000

FORM OF RULING GENERAL JOURNAL.



HISTORY OF TRANSACTIONS.

July 1.—Concluded purchase of property known as Treasury Hall, for bank building, paying for same $27,500. Recording deed, $2.50.

12th.—Bill of carpenter for fitting up bank building, $562, paid.

13th.—Bought furniture and fixtures, for which bill amounted to $375.

15th.—Paid for books and other stationery, including express charges, $155.

16th.—Bought postage stamps, $12. Bill for printing, paid, $75.10.

Correspondence with Arctic Nat. Bank established by depositing in current funds, $30,000. Paid expenses of President, trip to New York, $55.

18th.—Received following deposits: H. M. Lutz, 585.10; Theo. Kitchen, 1,624.75; G. A. Lewis, 1,210.40; E. P. Graham, 482.50; W. H. Webb, 1,540.82.

Among deposits were following checks and bills:

First Nat., 513.80, 75.30, 12.40, 1210.40.

East River, N. Y., 1,105.82.

Hanover, N. Y., 269.95.

Stebbins, F., & Co., Lawrence, N. Dak., 71.50.

Exchange, Pike, Ill., 25.30.

Discounted paper as follows:

For Joseph Arnold, H. Coulter's note, 60 days, 1,000.00.

For W. T. Bartlett, his note, 60 ds., for 2,500.00; secured by U. S. bonds.

For H. Coulter, O. B. Arnold's note, 90 ds., 3,500.00.

For J. H. Watt, G. A. Lewis's note, 30 ds., 2,780.00.

For F. Zahn, R. Ladd's note, 60 ds., 3,400.00.

Bought following bills on New York, and sent same for credit to Arctic Nat. Bank:

Theo. Kitchen's dft. on Imp. and Tdrs.', endorsed by W. T. Bartlett, 7,000.00; premium, 7.00. H. C. Rider's dft. on C. S. Hough, payable at Nat. Park, 4,000.00; premium, 3.50.

Sold exchange on Arctic Nat. as follows:

H. M. Lutz, 2,500.00; prem., 3.25.

F. Zahn, 1,800.00; prem., 2.25.

W. H. Webb, 250.50; prem., 50 cts.

Paid the following checks:

W. H. Webb, 250.50, 13.25.

Theo. Kitchen, 270.50, 18.42, 5.10.

19th.—Received the following deposits:

G. A. Lewis, 516.80; W. H. Webb, 275.10; G. A. Linton, 1,255.00; H. M. Lutz, 346.10; John Rapson, 1,842.70; J. D. Brown, 540.15; J. W. Torrey, 178.40.

Among the deposits were the following checks:

First Nat., Hartford, Conn., 175.80.

Chemical, New York, 255.10.

Fourth Nat., New York, 156.50.

Merch. Nat., New York, 127.40.

All of which were remitted Arctic Nat. for credit.

Paid checks as follows:

W. H. Webb, 75.80, 37.50, 42.60.

G. A. Lewis, 13.15, 27.50, 105.85, 10.10.

Theo. Kitchen, 8.75, 75.80, 327.40, 8.25.

H. M. Lutz, 107.10, 46.60, 3.27.

G. A. Linton, 36.40, 27.85.

J. D. Brown, 8.40, 10.75, 41.85.

Received for collection the following bills:

No. 1—John Rapson, on Brown Bros., Chicago, 246.80; No. 2—J. W. Torrey, on Smith & Wood, New York, 47.25; No. 3—W. H. Webb, on Drexel, Morgan & Co., 1,247.50; No. 4—E. P. Graham, on Prince & Whitely, 385.10; No. 5—J. D. Brown, on John H. Davis & Co., 470.50.

Many banks have dispensed with the Offering-Book. The information given in Chapter VII explains why the book may in many cases be unnecessary. (For explanation, see pages 227 and 233.

OFFERING BOOK.

No.	*Date.*	*Offered by*	*Guarantee.*	*Payable at*	*Am't.*	*To Run.*	*Accepted*	*Declined*	*Remarks*
1	July 18	Joseph Arnold	H. Coulter....	Our bank	1,000	60 ds.	1,000		
2	17	W. T. Bartlett	U.P.Bds. $3,200	Arctic, N. Y ..	2,500	60 ds.	2,500		
3	18	H. Coulter....	O. B. Arnold .	Our bank.....	3,500	90 ds.	3,500		
4	16	D. Robb	J. Hurd.....	do	750	60 ds.		750	
5	17	J. H. Wait....	G. A. Lewis ..	Chemical,N.Y.	2,780	30 ds.	2,780		
6	18	C. T. Wood...	J. Green.....	Our Bank	1,800	60 ds.		1,800	
7	17	P. Young.....	T. W. Bush...	do	500	30 ds.		500	
8	18	F. Zahn.....	R. Ladd	do	3,400	60 ds.	3,400		

Journal.	*Exch'ge.*	*Dis. and Prem.*	*July.*	*L. F.*	*Deposits.*	*Exch'ge.*	*Dis. Paper.*	*Exp. Items.*	*Jo rnal*
188,100			*On hand*						
			Real Estate						27,502 50
			Furniture and Fix 5 67 / 3 75						973
			Books and Stationery						145
			Postage and Printing 12 / 75 10					87 10	
			Arctic National Bank						30,000
			Contingent Exp					55	
		10 50	No. 1 Coulter				1,000		
		26 26	No. 2 Bartlett				2,500		
		54 25	No 3 Arnold				3,500		
		15 29	No. 4 Lewis				2 780		
		35 70	No. 5 Ladd				3,400		
		7 00	Kitchen			7,000			
		3 50	Rider			4,000			
	2,500	3 25	Lutz						
	1,800	2 25	Zahn						
	250	50	Webb		263 75				
			W. H. Webb 250 50, 13 25						
			T. Kitchen 270 50, 18 42		294 02				
			5 10						
158 49		158 49	*D. & P. Cr. Depositor's Dr.*		557 77				557 77
4,550	4,550		*Cr. Arctic Nat'l Bank. Dr.*			11,000			11,000
1,889			*Rec. Teller Cr. Dis. Paper*				13,180		13,180
194,697 49			*Expense Items*					142 10	142 10
91,223 12			*Balance*						91,223 12
									94,676 49

[LEFT PAGE.]

TELLER'S DAILY BALANCE

FORM 60. COPYRIGHTED 1891, BY LEVEY BRO'S & CO., INDIANAPOLIS, IND.

SUNDRY CREDITS.	INDIVIDUAL DEPOSITS.	Drafts.	Exchange	Notes Paid	Interest and Discount.

RECAPITULATION.	
On hand last balance,	
Sundry Credits.	
Individual Deposits,	
Drafts,	
Exchange,	
Notes Paid,	
Interest and Discount,	
Total,	

RECEIVING TELLER'S CHECK BOOK.

Depositor.	*Cash.*	*Dom. Ex.*	*For. Ex.*	*Total.*
July 18.				
Lutz	413 00	75 30	96 80	585 10
Kitchen	841 00	513 80	269 95	1,624 75
Lewis		1,210 40		1,210 40
Graham	200 00	12 40	270 10	482 50
Webb	435 00		1,105 82	1,540 82
By Paying Teller	1,889 00			
" *Dom. Collections*		1,811 90		
" *For. Collections*			1,742 67	
" *Dep. Ledger*				5,443 57
July 19.				
Lewis	300 00	41 00	175 80	516 80
Webb	20 00		255 10	275 10
Linton	1,200 00	55 00		1,255 00
Lutz	300 00		46 10	346 10
Rapson	1,500 00	300 00	42 70	1,842 70
Brown, J. D.	240 00	5 05	295 10	540 15
Torrey	150 00	28 40		178 40
By Paying Teller	3,710 00			
" *Dom. Collections*		429 45		
" *For. Collections*			814 80	
" *Dep. Ledger*				4,954 25

[RIGHT PAGE.]

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SUNDRY DEBITS		CHECKS AND INDIVIDUAL DEBITS	Notes Discounted	REMITTANCES.	CASH ITEMS

DOMESTIC TICKLER.—CONTINUED.

September.

July 18	1	H. Coulter.....	1,000 00	Dis.	
18	2	W. T. Bartlett.....	2,500 00	Dis.	
18	5	R. Ladd	3,400 00	Dis.	

October.

July 18	3	O. B. Arnolds	3,500 00	Dis.	

FORM OF RULING

COLLECTION TICKLER.

THURSDAY, ...189

No. or Date of Letter	Payer.	Where Payable	To Whom Sent.	For Whom Collected	Amount.	Ck.	Remarks.

REGISTER.

Time.	*Due.*	*Amount.*	*Collected for.*	*Sent to.*	*Ck.*
30 ds.	Aug. 3	246 80	John Rapson	First Nat.....	
60 ds.	Sep. 11	47 25	J. W. Torrey	Arctic	
30 ds.	Aug. 17	1,247 50	W. H. Webb.....	Arctic	
30 ds.	Aug. 21	385 10	E. P. Graham.....	Arctic	
30 ds.	Aug. 21	470 50	J. D. Brown.....	Arctic	

Depositors.	18		19		20		21	
H. M. Lutz		585 10	107 10 46 60 3 27	585 10 346 10		774 23		
Theo. Kitchen	270 50 18 42 5 19	1,624 75	8 75 75 80 327 40 8 25	1,330 73		910 53		
G. A. Lewis		1,210 40	13 50 27 50 105 85 10 10	1,210 40 516 80		1,570 60		
E. P. Graham		482 50		182 50		482 50		
W. H. Webb	250 50 13 25	1,540 82	75 80 37 50 45 60	1,277 07 275 10		1,396 27		
G. A. Linton			36 40 27 85	1,255		1,190 75		
John Rapson				1,842 70		1,842 70		
J. D. Brown			8 40 10 75 41 85	540 15		479 15		
J. W. Torrey				178 40		178 40		
	557 77	5,443 57	1,014 92	4,885 80 4,954 25		8,825 13		

ITEMS FOR ILLUSTRATING THE DEBIT AND CREDIT JOURNALS.

(1.) Rec'd notice from First National of Cleveland that Brown & Bacon's d'ft on Hardin had been paid, and the amount, $842.25, placed to our credit. Brown & Bacon deposited, cash, $500. (See Credit Journal, deposits column, $1,342.25; also Depositors' Ledger, acc't of B. & B. For charge to First Nat., Cleveland, see Debit Journal.)

(2.) Bo't 100 U. S. 4s@123 ($12,300), paying by draft on Fourth Nat., New York. (See Credit J., general col. for credit to Fourth Nat., and also Debit J., general col. for credit to Government stocks.)

(3.) Rec'd notice from Second Nat., St. Louis, that John Adams's d'ft on Beeten for $500 had ben paid and placed to our credit. (See C. J., deposit col., and D. J., general col.; also Depositors' Ledger.)

(4.) Paid bill, stationery and printing, $47.50. (See D. J., general col.)

Note.—This is entered to the account of "Expense." In some banks the general expenses are divided under various headings, such as "Salaries," "Stationery and Postage," "Rent," "Fuel and Gas," etc. The "Expense Account" in such instances would embody only items of contingencies not provided for by special classification. Classifying the items is a matter of taste. As a rule, it is well to adopt such a practice.

FORM OF CREDIT JOURNAL.

Washington, January 2, 1885.

L. F.	*Title of Account.*	*Items and Notation.*	*Col. & Ex.*	*Deposits.*	*General.*
	Brown & Bacon.....	500 Col. 852.25		1,342 25	
	Fourth National, N.Y.	U. S. 4 %s @ 123.....			12,300
	John Adams	Col.....		500	
	Henry Smith	"		250	
	C. C. Brown	"		1,250	
	National Park, N. Y..	C. Goodnough	10		4,000
		J. Peters	4		1,600
		F. Brokaw.....	3 14		1,256
		R. Albert.....	80		320
	P. Fisher.....	Disct		3,979	
	Amos Smith	"		2,953 50	
	F. Hill.....	"		2,467 50	
	Interest.....	Disct. Register	6 25		93 75
					24 19
	Col & Exchange..	.....	24 19		
	Deposits	.....		12,742 25	12,742 25
	Cash, Dr.,.....	.....			32,336 19

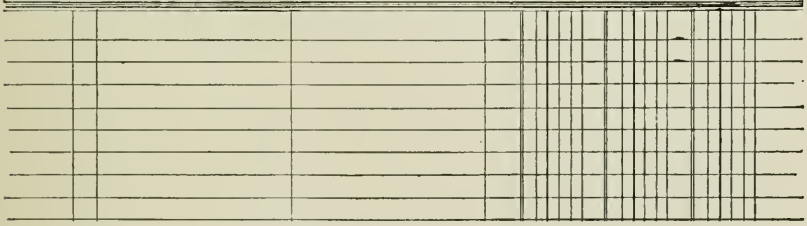
FORM OF DEBIT JOURNAL.—FORM 443.

Washington, January 2, 1885.

L. F.	*Title of Account.*	*Items and Notations.*	*Col. & Ex.*	*Deposits.*	*General.*
	First Nat., Cleveland	B. & B. Col			842 25
	Governments	4's pr. dft. 4th Nat			12,300
	Second Nat., St.Louis	J. Adams Col			500
	Expense	*Stationery, Printing*			47 50
	Fourth Nat., N. Y.	Remittance C. C. Brown's K			1,000
	Second Nat., Wash'n.	Goodnow, 4,010 Peters, 1,000			5,010
	F. Brokaw	1,259 14		1,259 14	
	T. Swift	120, 145 50, 200		465 50	
	L. Loveland	8 10, 14 60, 105 30		128	
	H. Smith	300, 12 50		312 50	
	John Adams	105, 318 10		423 10	
	Bills Discounted	D. R.			4,000
	Dom. Exchange	D. R.			5,500
	Deposits, Dr.	Checks paid			5,288 24
	Cash, Cr	*Disbursements*			31,787 99

FORM OF JOURNAL RULING.

FORM NO. 341.



DISCOUNT.

When Discounted.	*No.*	*Drawer or End.*	*Drawee or Mkr.*	*Where Pay.*	*Date.*	*Time.*
Jan. 2	1	P. Fisher	J. C. Vermont	Washington	Jan. 2	60
2	2	Amos Smith	T. Wilder	N. Y.	Jan. 2	90
2	3	C. Stevens	Brown & Bacon	Chicago	Jan. 2	60

(5.) Sold drafts on Nat. Park, New York, as follows: C. Goodnow, $4,000, exch. $10; J. Peters, $1,600, exch. $4; F. Brokaw, $1,256, exch. $3.14; R. Albert, $320 exch. 80c. (See C. J.) Rec'd in payment, Goodnow's c'k on Second Wash'n, $4,010; Peters's c'k on do., $1,000, balance cash; F. Brokaw's c'k on us, $1,259.14. (See D. J. and Depositors' Ledger, d'ft to Albert paid in cash.)

(6.) Discounted notes for P. Fisher, $4,000; Amos Smith, $3,000; F. Hill, $2,500. Total $9,500. (See D. J., general col. from Discount Register; also C. J. deposits, and col. and exch. from Discount Register.)

Note.—The original entries of these transactions would be those in the Discount Register. The transactions then find their way to the Ledger through the Debit and Credit Journals.

(7.) Paid checks of Swift, Loveland, Smith and Adams. (See Debit Journal, deposits col.)

THE DISCOUNT REGISTER.

The purposes served by the Discount Register are what, in a mercantile business, would be found in the use of a Bill-book. The formular arrangement of the Register is somewhat more extensive than that of the Bill-book, as the information desired by a bank covers a broader field than that sought by a commercial house. In this book are recorded, in the order of discount, the notes which become the property of the bank. The names of the drawer or endorser appear first, and then come those of drawee or maker. Following these are columns for information as to where the note is payable, the time specified on its face, date when due, and time it is to run for which discount is charged. The amount of the note is sometimes classified under

REGISTER.

W'n Due.	*To Run*	*Bills Dis.*	*Dom. Ex.*	*Int.*	*Col. & Ex.*	*Proceeds.*	*Credited To*	*C'k.*
March 6	63	4,000		21		3,979	P. Fisher.....	✓
April 5	93		3,000	46 50		2,953 50	Amos Smith..	✓
March 6	63		2,500	26 25	6 25	2,467 50	F. Hill.....	✓
		4,000	5,500	93 75	6 25	9,400 00		

two headings, as seen in the illustration, viz., "Bills discounted" and "Domestic exchange," and sometimes it is entered under one heading, as "Amount" or "Face." When the two columns are used, the first embraces the notes payable at home, or in the place where the bank is located, and the latter those payable at other places. A column is provided for "Interest," another for "Collection and Exchange," and one also for "Proceeds." Finally the name appears to whom the proceeds are credited, and a narrow column is added for the "check" which is made as the items are posted.

There are many forms of this book in use, some less and some more elaborate than the one we have given. Some banks treat all notes discounted under the one general title of "Bills Receivable," and use as a record only the simplest form of a bill-book. In many banks a large number of books are used which the experience and skill of progressive accountants have demonstrated are not really essential. There is a growing tendency among bank accountants to dispense with every book not absolutely necessary, and to abridge the bookkeeping in every way possible. This is a commendable spirit of reform, but care should be taken that the abridgment is not carried to excess, lest grave inaccuracies creep in through the lack of proper checks and proofs.

THE OFFERING-BOOK.

Chapter VIII is devoted chiefly to the subject of discounting paper. The information there given is so explicit that nothing remains to be said here more than to explain some special functions of the offering-book, and give an idea of its place in a system of bank accounts. On page 62, in the chapter referred to, reference is made to the formula arrangement of the offering-book. There is no prescribed rule for the form to be employed. Any arrangement that will best meet the requirements may be adopted. But little difference in the style is to be noticed among the many in use. We submit a form that seems to fill the requirements. The form may be improved upon for some institutions. Some offering-books have a column headed "Average Balances." This is to give the information contained in the average-book, for a description of which see page 59. Where an average-book is kept, the addition of the average balance column is not essential, and if it tends to make the book cumbersome, should be omitted. The offering-book is commonly termed a memorandum or auxiliary to the regular set. It, however, acts as the book of original entry for the class of transactions which originate therein. From the offering-book the record is carried to the discount register, through which it enters the ledgers. A record of the discounted paper must also be carried to the domestic ticklers, if payable at home, or to the domestic-exchange book, if sent away for collection.

In many banks a book, called the Liability Ledger, is used in which is entered the details of their loans. Two forms are given. As the amounts loaned to any individual, or for which he is liable as an endorser, guarantor or otherwise, are thus kept together, his liability can be readily ascertained.

THE DEPOSIT JOURNAL.

The Deposit Journal is not as universally used as the General Ledger, the Tickler or Discount Register. It is used in many country banks, and helps to simplify and abridge the entries in the General Journal. One side of the book shows the work of the paying teller, and the other that of the receiving teller, coupled with the records of certificates of deposit issued. Certificates of deposit are sometimes issued by one official and sometimes by another. In some country banks the cashier is also paying teller and receiving teller, i. e., he performs the duties of both, and may be also the bookkeeper, note teller and discount clerk. We do not refer to the functions of the various departments of service with the idea that the various duties must be performed by one and the same person. If the one person acts as both paying and receiving teller the Deposit Journal becomes a mere cash-book for recording a special line of transactions.

DEPOSIT JOURNAL.

Debits, Monday, Jan. 5, 1885. *Credits, Monday, Jan. 5, 1885.*

L. F.	*Names.*	*Checks.*	*Ctf's Dep.*	L. F.	*Names.*	*Deposits.*	*Ctf's Dep*
	C. H. Pine.....	210 40			Alex. Hawley	750	
	Jos. Arnold	1,406 10			W. B Hincks		1,000
	F. N Benham.....	75 50			F. W. Marsh	150 40	
	H. B. Drew, 1510 ..		500		C. H. Pine.....	75 50	
	T. L. Bartholomew.	405			J. P. Wood.....	535	
					Total Deposits.....	1,510 90	1,510 90
	Wm. E. Seeley		175		Total Ctf's issued.		1,000 00
	I. B. Prindle	57 10					
	E. E. Post.....	146 60					
	Total C'ks Pd	2,300 70	2,300 70				
	Total Ctf's Pd		675				
	Paying Teller's *Credits* ..		2.975 70		Receiving Teller *Chg'd* ...		2,510 90

Besides the books described are several others that require no lengthy explanation. One of these is the Remittance Register. In this is entered collection items; the banks to which they are sent and all

DEPOSIT LEDGER. (Left Page.)

A FORM OF THE BOSTON PATENT SELF-PROVING INDIVIDUAL B

FORM 715

190 | 190 | 190

	NAMES	Balance.	Checks.	Deposits.	Balance.	Checks.	Deposits.	Balance.	Checks.	Deposits.	Balance.		Checks.	Dep
1												1		
2												2		
3												3		
4												4		
5												5		
6												6		
7												7		
8												8		
9												9		
10												10		
	Total Balances,													
	Overdrafts,													
	Net Balances,													

CENTER OF BOOK (Bound Here)

DEPOSIT LEDGER. (Left Page).

ANOTHER FORM OF THE BOSTON PATENT SELF-PROVING INDIVIDU

FORM 735

Mouday, 190 | Tuesday, 190 | Wednesday, 190 | Thursday,

	NAMES	Balance		Checks in Detail	Total Checks	Deposits	Balance		Checks in Detail	Total Checks	Deposits	Balance		Checks in Detail	Total Checks	Deposits	Balance		Checks in Detail	Total Ch
1	AMOUNTS FORWARD.		1					1					1					1		
2			2					2					2					2		
3			3					3					3					3		
4			4					4					4					4		
5			5					5					5					5		
6			6					6					6					6		
7			7					7					7					7		
8			3					8					8					8		
9			9					9					9					9		
10			10					10					10					10		
11			11					11					11					11		
12			12					12					12					12		
13			13					13					13					13		
14			14					14					4					14		
15			15					15					15					15		
16			16					16					16					16		
17			17					17					17					17		
	Total Balances,																			
	Total Overdrafts,																			
	Net Balances,																			

CENTER OF BOOK (Bound Here)

T SELF-PROVING INDIVIDUAL BANK LEDGER AND BALANCE BOOK.

(Right Page.)

THOMSON & HORNE PATENTS

190			190			190			190				
Deposits.	Balance.		Checks.	Deposits.	Balance.	Checks.	Deposits.	Balance.	Checks.	Deposits.	Balance.	Memorandum	Transfer Balance
		1											
		2											
		3											
		4											
		5											
		6											
		7											
		8											
		9											
		10											
												Total Balances.	
												Overdrafts.	
												Net Balances.	

(Bound Here) CENTER OF BOOK

Balance. Showing Short Leaf Folded over

Row of Perforations to be torn off here when Balance is Transferred to opposite Page

ENT SELF-PROVING INDIVIDUAL BANK LEDGER AND BALANCE BOOK.

(Right Page.)

THOMSON & HORNE PATENTS.

190			Thursday, 190			Friday, 190			Saturday,				
Total Checks.	Deposits	Balance	Checks in Detail	Total Checks	Balance	Checks in Detail	Total Checks	Balance	Checks in Detail	Total Checks	Deposits	Balance	Transf-Balance
		1			1			1					
		2			2			2					
		3			3			3					
		4			4			4					
		5			5			5					
		6			6			6					
		7			7			7					
		8			8			8					
		9			9			9					
		10			10			10					
		11			11			11					
		12			12			12					
		13			13			13					
		14			14			14					
		15			15			15					
		16			16			16					
		17			17			17					
												Total Balances.	
												Total Overdrafts.	
												Net Balances	

(Bound Here) CENTER OF BOOK

Balance. Showing Short Leaf Folded over

Row of Perforations to be torn off here when Balance is Transferred to opposite Page.

the details pertaining to their collection. The Register of Certificates of Deposit is for the entry of all deposits for which certificates are given. The Draft Register is another book in which is entered all drafts drawn on correspondent banks. Formerly, the forms of drafts were printed with stubs; these were filled up with a proper entry on the stub and then detached and sent off. By using this book stubs are discarded; drafts are prepared in tablets, usually of one hundred each, and filled up and entered in the Draft Register. Then they are ready for remittance. Two other books require brief mention. One of these is the Daily Statement Register. The numbers stand for the various accounts in the General Ledger, and by thus bringing them together the daily condition of the bank is ascertained. Lastly, is the Daily Balance Book, in which is entered the daily balances of the individual accounts.

THE NEW YORK OR BOSTON SYSTEM.

Having described the older method of keeping the accounts of a bank and all the principal and auxiliary books needful for that purpose, we shall now describe a newer method, which is known as the New York or Boston System.

The first improvement to the regular Double Entry Ledger was, instead of giving each depositor a page account, to take the accounts and record them on several pages in alphabetical order, one after the other on the page, throwing the debit and credit column to the right, and carrying the balances down in red ink in the credit column, the same as was done when the accounts were given a full page.

By this change the ruled cross lines, made when balancing, were no longed needed. At this time the Balances were copied from the Ledger every day into a book called the Daily Balance Book.

To this form some bookkeeper added two balance columns—a credit balance and a debit balance column, which were placed side by side with the credit and debit columns. Some other bookkeeper conceived the idea of doing away with the debit balance column and recording an occasional overdraft in the credit balance column in red ink. This change was applied to the old double entry ledger system, as well as to the new line account system, as it was then called. Both of these forms are still used by many banks.

The revolution in keeping depositors' accounts started in 1852, when a bookkeeper in a Boston bank, Mr. Lane, got tired of writing the depositors' names over and over every day. So he prepared a form with a wider page which would accommodate three days' work on one page. As may be supposed, this idea was the invention of a man whose prime object was to save himself work. Mr. Lane still continued using his Daily Balance Book at this time and the teller in the same bank suggested the adding of the Balance column to the form,

between the rulings of the several days. This was done and accordingly it did away with the Daily Balance Book entirely, and likewise the labor incident thereto.

Such was the origin of the Skeleton Ledger, or Boston System, as it was styled in New York. The teller in the Boston bank afterwards became associated with a New York bank and there introduced Mr. Lane's idea. However, at this time, instead of preserving the old terms, debit, credit, and balance, the columns were given their true names of deposits, checks, and balances. The next improvement was adding the checks in detail column, the credits for deposits and the debits for checks being made direct from the deposit slips and checks respectively. Thus, the Deposit Journal was discarded and the Ledger, Balance Book and Journal combined.

With experience this form was changed and three more columns added to the opposite page, permitting six days' business to be recorded with one writing of the depositors' names. The left-hand page, beginning with Monday, the work of six days being placed upon the open book, three days on the left and three days on the right.

Later, another bookkeeper conceived the idea of saving more time by cutting off the next leaf, making a short leaf; thus in conjunction with the bookmaker, short leaves came into use, the object of which was to save re-writing the depositors' names so often. One short leaf was first used, but now the books are made sometimes with as many as twelve short leaves.

Small banks, not having many depositors, still continue to write their names, but in most of the larger banks all the writing in the ledgers, which was formerly done by the pen, is accomplished by the printer, so that the writing in of ever-varying figures is almost the sole clerical task left for the bookkeeper; even the depositors' names are now printed instead of written as formerly. With the printing of the depositors' names another advantage has been gained in the short leaves, for these are now so made that instead of having to transfer the depositors' balances at the end of every week—by folding the short leaf back, the balance on the last day of the week is entered into the balance column at the extreme left of the short leaf, which, after it is folded back into its original position, brings the balance into proper order for the first day of the succeeding week without re-writing.

Keeping a thousand accounts in an ordinary old-style ledger has been likened to keeping a thousand miscellaneous articles in a barrel. The accounts are fished out once a month, sorted over, pronounced correct, and then all thrown back again. The New York Bank Account System may be called a well-arranged and scientifically subdivided system of shelves for accounts. A glance suffices to inventory any given shelf and to tell whether there is anything on it that does not belong there.

In the way of a further explanation of the system, it may be remarked that the Depositors' Ledger is intended to serve as a day-book and ledger combined. The overdrafts or asset balances are entered in red, and the liability balances in black ink. In the form (Appendix A 1) is given a page showing the entries for a week. It will be seen that the depositors' accounts run horizontally across the page. First comes the balance deposited in the beginning or brought forward from the page where the name previously appeared. Then there are two narrow columns under the heading "checks in detail." The first of these columns belongs to the second account in the compartment; and the second column to the first account in the compartment. The next two columns are for the totals of checks and deposits. The sixth column is a space for explanations on the deposits or other credits. The seventh column contains the balance at the close of the day. Following this, still to the right, the same is repeated under another day. A page eighteen inches in width will give space for three days' transactions. Running across both pages of the book, six days' business is recorded before the name is rewritten. The object of dividing the page into compartments with horizontal lines, and placing only two accounts in one compartment, is to aid the eye in its sighting across the page from the side where the name is written.

In footing the balance columns the overdrafts are deducted, making the footing show, not the total liability of the bank for deposits, but the "net total deposits." This is one of the objections to be urged against the system. The overdrafts of depositors are assets. They may be serviceable in paying depositors, and they may not; they are certainly not as reliable as money in the vault. And, besides, a statement of a bank for the benefit of stockholders ought to show the total deposits and the aggregate of overdrafts as two separate items.

After footing the balance and total columns of the depositors' accounts for the day, a general statement may be written up by adding capital stock and other general accounts, if not too numerous. The column entitled "Total checks" may, in entering the impersonal or general accounts, be used for all cash disbursed. The "Total deposits" column may contain all cash receipts; in this way the balance book will serve to take the place of a general ledger.

One advantage of this method which recommends it is the easier locating of errors. Each page is susceptible of proof in itself, and thus an error may easily be pinned down to a small number of entries.

Books are also made by which, with the use of short leaves, one writing will carry an account through two months or longer.

A leaf about eighteen inches square will give space for thirty accounts six days. The two pages of such a book will serve thirty accounts thirteen days. One writing of an account will carry it through a month. The lines on which the names are written are about five-eighths of an inch apart, and they alternate in color, first blue and

then red. The change of color serves to guide the eye correctly across the page, or the two pages. For each day there is a pair of columns, the first, or left-hand column, being for debits or checks, and the second, or right-hand column, for credits or deposits; the balances are carried forward in pencil. The calculation in carrying the balances forward is done mentally. It would be surprising to one not expert in this work to observe the rapidity with which the bookkeeper performs these mental calculations. With three amounts on one side and two on the other, the items ranging in value from the units column to several thousand, the calculation is performed mentally, the balance struck without a moment's hesitation, and placed in its proper column for the next day. For example, the following represents a day's transactions:

Debit.	*Credit.*
7,462 25	
	12,620 32
35 60	
379 84	
	284 60

The balance, $5,027.30, is dotted down with surprising rapidity. In footing the columns the pencil figures only are taken to get the total balances. The amounts in ink, when footed, show total drafts and total deposits for the day.

The plan followed by which the entries find their way from the tellers' counters and the exchanges, to the depositors' ledger and balance book, varies in different banks. The volume of business has much to do with the system in use. It is well worth the space here to give a description of the plan in vogue in the National Park Bank. This bank is a representative institution with over ten thousand active accounts on its depositors' ledgers. There are two receiving tellers. A depositor presents his book with deposit enclosed. If currency or specie form a part, it is counted and dropped into the till or money drawer. The checks and other items are not carefully examined. If the currency and coin are correct, the amount according to the deposit slip is entered in the pass-book. The deposit slip, the checks, drafts, or other items are kept together until a checking clerk takes them away. These items of the deposit slip are then carefully examined and rechecked upon the deposit slip. If an error is discovered the correction is made upon the slip. The checks, drafts, etc., are now classified and passed over to other clerks. Some go to clerks who enter them up ready for passing through the Clearing-house. Others must be sent out for collection by the bank's messenger. The checks of the bank's own depositors and correspondents go to clerks who enter them up preparatory for the bookkeepers. This is followed up so closely that, at the hour for closing the receiving teller's window,

GENERAL LEDGER. (Left Page.)

A FORM OF THE BOSTON PATENT SELF-PROVING GENERAL BANK LEDGE

FORM 765

190 190 190

ACCOUNTS	Folio	No.	BALANCE	BALANCE	DEBITS	Credit Items	CREDITS	BALANCE	Debit Items	DEBITS	Credit Items	CREDITS	BALANCE	Debit Items	DEBITS	Credit Items	CREDITS	BALANCE		Debit Items	DEBITS	Credit Items	CREDIT
		1																					
		2																					
		3																					
		4																					
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BALANCE

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GENERAL LEDGER. (Left Page.)

ANOTHER FORM OF THE BOSTON PATENT SELF-PROVING GENERAL BANK L

FORM 755.

190 190

Line No.	ACCOUNTS	BALANCE	DEBIT DETAIL	DEBIT AMOUNT	CREDIT AMOUNT	CREDIT DETAIL	BALANCE	DEBIT DETAIL	DEBIT AMOUNT	CREDIT AMOUNT	CREDIT DETAIL	BALANCE	Line No.	DEBIT DETAIL	DEBIT AMOUNT
1	Cash,												1		
2	Loans and Discounts,												2		
3	Bank Building,												3		
4	Furniture and Fixtures,												4		
5	Expense,												5		
6	Interest Paid,												6		
7	Hanover National Bank, N. Y.												7		
8	National Bank of Republic, Chicago,												8		
9	First National Bank, Kansas City,												9		
10	Overdrafts,												10		
11													11		
12	Capital Stock,												12		

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BALANCE

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' SELF-PROVING GENERAL BANK LEDGER AND DAILY STATEMENT BOOK. (Right Page.) THOMSON & HORNE PATENTS.

190					190					190					190							
TS	Credit Items	CREDITS	BALANCE		Debit Items	DEBITS	Credit Items	CREDITS	BALANCE	Debit Items	DEBITS	Credit Items	CREDITS	BALANCE	Debit Items	DEBITS	Credit Items	CREDITS	BALANCE	No.	REMARKS	TRANSFER BALANCE
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190					190					190						
CREDIT					DEBIT		CREDIT			DEBIT		CREDIT				
OUNT	DETAIL	BALANCE	Line No.	CENTER OF BOOK (Bound Here)	DETAIL	AMOUNT	AMOUNT	DETAIL	BALANCE	DETAIL	AMOUNT	AMOUNT	DETAIL	BALANCE	Short Leaf is Folded to Right at this Line.	Row of Perforations to be torn off here when Balance is Transferred to opposite Page
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			12													

every check, draft and other item of the day has been charged up at the checking counter. The items in the balance ledgers are taken from the books kept up by the checking clerks, and the individual bookkeepers also make up their ledgers from the books kept on the checking counter.

There are four sources from which the balance ledger bookkeepers obtain the items of debits to the accounts in their charge. These are —first, through the Clearing-house; second, through the paying teller's department; third, from the receiving teller's department; and, fourth, through the note teller's department. They have been classified and entered up at the checking counter, so that he has only to write down the totals. There are some institutions having accounts with the Park Bank which draw as many as forty checks in a day; many draw twenty to thirty.

In this bank the accounts of depositors or dealers are divided into four classes, and are kept by eight individual bookkeepers—four of whom are on depositors' ledgers and four on the balance ledgers thus:

Names from A to D,
E to K,
L to R,
S to Z.

The accounts of correspondents or other banks are arranged under two divisions:

A to L,
M to Z.

Thus twelve individual bookkeepers are employed, eight on depositors' accounts, and four on accounts of other banks. The balance books are extended before the hour for opening next morning, and the footings are made so as to compare with the general ledger before the close of each day.

Besides the Individual or Deposit Ledger, other books are also used. The first that may be mentioned is the General Ledger.

The Draft Balance Register is another book used by a bank for keeping an account with a correspondent bank on which it is accustomed to draw. The book is used especially by a country bank for keeping its account with a reserve or correspondent bank in one of the large cities.

Another book is the Certificate of Deposit Register and Ledger. This contains all the data usually desired in a Certificate of Deposit Register, and in addition affords the means to keep the ledger account of certificates of deposit in actual use. The certificates are registered each day as issued, and at the close of the day's business the total is carried into the balance column in black ink. Certificates paid and canceled are entered on the right-hand side, and at the close of business each day the total is carried into the balance column in

red ink. The difference being added to, or subtracted from, the balance of the day before, and the result carried down as the new balance. It will be noted that a column is provided for keeping account of interest

CERTIFICATE OF DEPOSIT

[LEFT HALF.] Form 17.

When Issued		Deposited By	Time	Int. Rate	No.	Wh
Year & Mo	Day					Month
1896						
Dec	2	William Jeffries	6 Mo.	3	1037	June

paid on certificates, and that the total is carried along from day to day to be charged to profit and loss account as a part of gross expenses when the dividend period arrives. By the use of this form it is possible to keep two ledger accounts in the book, in addition to the record of the certificates on the register side.

[LEFT PAGE] Form 18.

DISCOUNT REGISTER

When Discounted		Makers	Endorsers	Date of Note			Time	Maturity	No.	Payments Made	
Year & Mo	Day									Date	Amount
1896											
December	8	Wm. Woods	Kelly & Co.	Dec.	2	1896	Demand	Interest from date	10172	Dec 26	5 0 0
										Dec 15	1 [illegible]
		Henry Johnson	Sam'l Johnson	Nov.	30	1896	30	[illegible]	[illegible]	Jan 2	1 [illegible]

The next book to be described is the Discount Register and Ledger. Besides containing all the data usually desired in discount registers, it affords the means to keep an account of notes paid each day. In actual use the notes are registered each day as taken. At the close of the day's business the total of the notes taken is carried into the balance column in black ink. Payments made on notes are entered on the right side, and at the close of business each day the total of the payments for that day is carried into the balance column in red ink. The difference between the total of payments and the total of notes taken that day is added to or subtracted from the balance of the day before and the result carried down as the new balance of loans. Should any note be paid in part, that fact is noted by the letter P written in the column next to amount of payment on the right-hand side and on the same line the payment appears. All payments, whether partial or whole, should be entered in column of "payment made" on the line on which that particular note is registered. When a payment satisfies the balance of a note previously partially paid that fact can be shown by entering the letter B in the proper column. The discount taken at the time a loan is made or a note bought is entered in the column headed "discount," and interest collected on notes not

paid at maturity or on demand notes, etc., is entered in the column of "interest received." Interest received on United States bonds or other investments not carried as loans can also be entered here, if desired.

REGISTER AND LEDGER.

[RIGHT HALF.]

DR. CR.

ID Year	Amount	Balance	Certificates Paid Amount	Int. Paid	No.	Date Yr. & Mo.	Day
		5562507		825 00		1896	
1897	500		300	4 50	1065	Dec.	2
			600	24 00	950	Dec.	2

The total of "discount received" and "interest received" should be carried along from day to day until the dividend period comes around, when the total should be carried to the profit and loss account and proper entries made on this book.

[RIGHT PAGE.]

AND LEDGER

DR. CR.

Discount	Note	Amount	Balance	Bills Receivable Paid Amount	Int. Received	No.	Maker	Date Paid	
10493	71		5672519 6		796 29			1896	
				1000	9 17	9942	Sam Brown & Son	Dec.	2
		10	1000	70	1 40	10100	John Dobbs	Dec.	2
				310		10104	Jas. Smith	Dec.	2
				1000		10107	Simpson & Bro.	Dec.	2
3	20	10	350	725		10619	Brown, Smith & Co.	Dec.	2
				5000		10710	Neb. Farm Co.	Dec.	2

CERTIFIED CHECK REGISTER AND LEDGER.

[LEFT HALF.] Form 15.

Date Certified Year & Mo.	Day	Drawer	Payee	Date of Check			No	Wh
1897 January	4	W. F. Fuller	E. L. Edwards	Jan	4	1897	900	

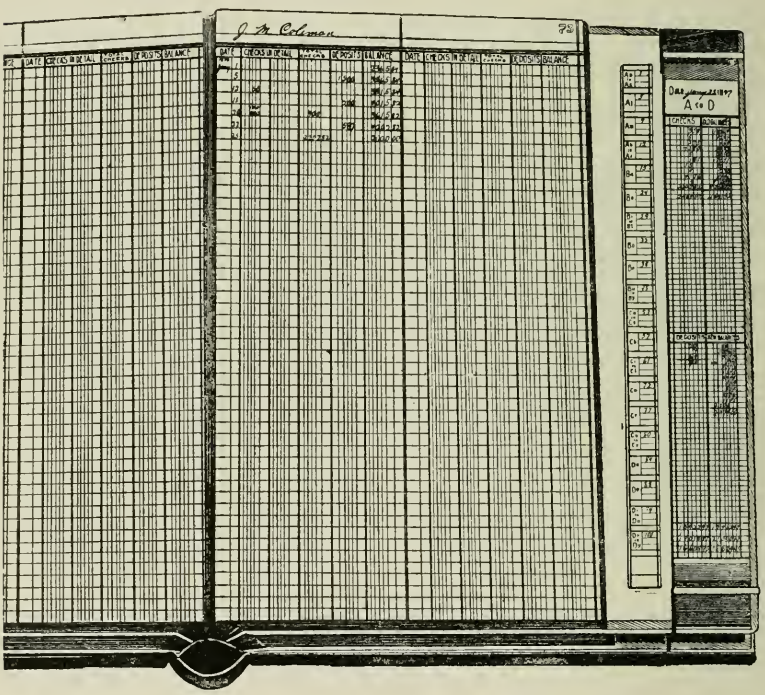
[RIGHT HALF.]

ID	Amount of Check	Balance	Checks Paid Amount Paid	No	To Whom	Date Paid Yr. & Mo.	Day
		5632				1897	
	500						
			150	895	John Elwood	Jan.	4
			100	875	F. L. Cullen	Jan.	4
			[illegible]	894	[illegible]	Jan.	4

Lastly, is the Certified Check Register and Ledger, in which is kept a complete record of all checks that are certified by the teller. As we have stated elsewhere, it is the usual custom to charge certified

checks to the account of the depositor immediately after certifying them, but it is often the case that several days elapse before the check is presented at the bank for payment. By the use of this form it is possible to keep a complete register record of the certified checks and also the ledger account of the same. All banks in certifying checks should charge them direct to the account of the party for whom it is certified, and then throw the amount to the credit of "certified checks" and register it in a certified check register. It is often desirable to know to whom a particular certified check is paid. A column is provided in which to enter the name of the person cashing the check and also the date when it is paid.

THE EAGAR SYSTEM.



Finally there remains to be described the Eagar system. The same books may be used in this as in the system last described except the Individual Ledger. The mode of using the Eagar Ledger is thus described by the author:

In order to get the best results from the ledger, the checks and deposits columns of the teller's book (or other books of original entry)

should be subdivided into as many columns as there are sections in the ledger. The ledger is generally divided into four sections: A to D, E to K, L to P, and Q to Z. The columns of the teller's book should be divided under the same headings.

The aggregate of the balances for each section is entered under the line at the foot of the teller's book. The checks and deposits are entered under their respective headings, and at the close of business the total deposits are added to the section balance, and the total checks subtracted, thus carrying an account against each section of the ledger. As the items go to the bookkeeper, he enters them direct to the account, being careful to record the balance of each account, before posting, on the proof sheet under "old balances," and at the same time check the numeral on the margin of the proof sheet to correspond with the ledger page on which the account is located. At the close of business he will have a record of the old balances of all accounts affected, and the numbers checked on the proof sheet will indicate the pages to which he must turn to extend his new balances. As the new balances are extended they are recorded on the proof sheet under "new balances." The total new balances are added to the section balance at the foot of the sheet, and the total old balances subtracted, thus carrying a second account against each section of the ledger. If the account on the proof sheet balances with the account on the teller's book, a perfect check is had through the balances that change for the day.

If it is desired to keep a daily record of the total overdrafts, a separate account can be kept on the proof sheet, using the columns provided for checks and deposits for "old overdrafts" and "new overdrafts." If it is not desired to keep the total overdrafts, the old overdrafts can be recorded under the head of new balances and new overdrafts under old balances. This is equivalent to a subtraction of overdrafts from the credit balances.

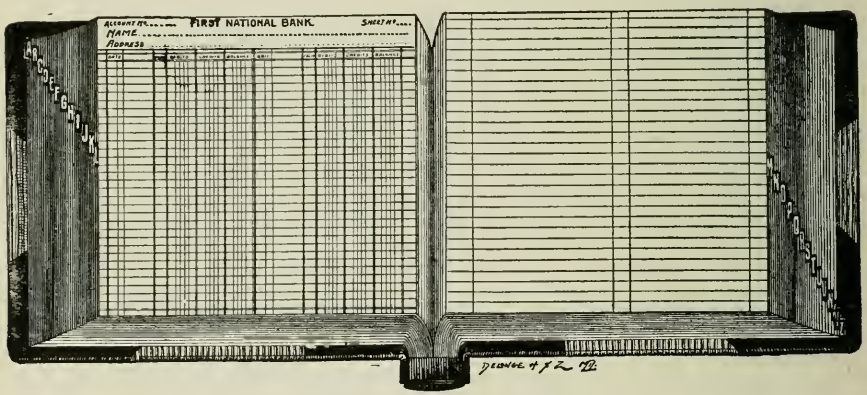
In opening the ledger, the accounts are distributed according to the index, which is always visible when the book is open. From 25 to 50 pages should be left at the back of each section. Thus the accounts are distributed in compact groups, with the initial page of each group recorded on the index. When the space allowed a group is filled, additional space is allowed from the surplus at the back of the section and the initial page again recorded on the index. In this way the index forms a key to the location of the various groups as they progress through the section.

These instructions apply in cases where the teller's book is arranged to conform to the ledger sections. The experienced bookkeeper will understand, however, that the footings can be carried forward from proof sheet to proof sheet and the aggregate figures shown on the last sheet. If a double check is desired, the checks and

deposits can be listed on the proof sheet (or the total checks for each account carried to the proof sheet) and there footed and brought into balance with any book of original entry.

THE LOOSE LEAF LEDGER.

Before concluding this chapter, there is another form of ledger that should be briefly noticed. Loose leaves have been used for many years, because there are some very apparent advantages in using them. With these individuals have been busy trying to perfect a system, and have made considerable progress. One of the advantages of such a system is that the accounts can be constantly kept in an alphabetical order, thus dispensing with an index, and yet enabling the seeker to find any account more quickly than by any other method.



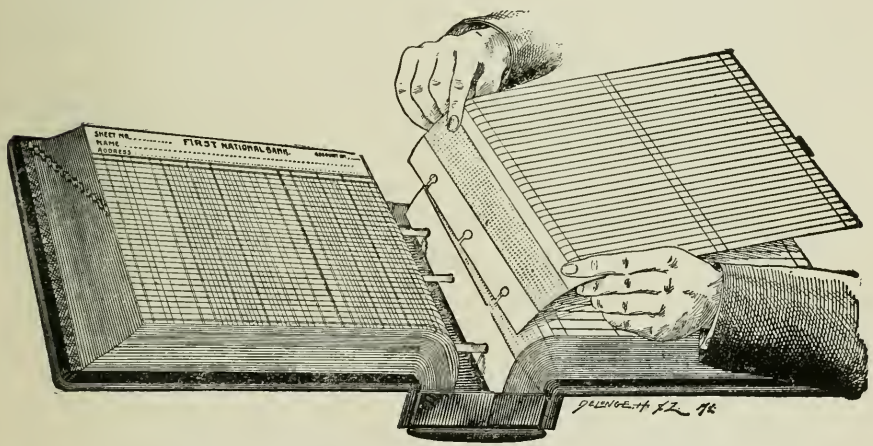
BOOK OPEN AND READY FOR USE.

The accounts are numbered by sheets, and when a sheet is filled and balanced it is placed in the transfer binder and numbered 1, another sheet marked 2, and with the same name, is placed in the ledger on which the account is continued. By keeping the transfer binder properly indexed and numbered all accounts can be readily traced.

Of course, the ledger may be made very small, and can be easily enlarged or diminished. The cuts represent this ledger open and ready for use, and also for the removal of sheets.

Notwithstanding the best efforts to adopt a system of bookkeeping as nearly perfect as possible, errors will occur, which may lead to serious results. Bookkeepers have sometimes failed to credit the account of a depositor the full amount due to him, or have made incorrect

additions, whereby his checks have been dishonored for lack of funds, when in truth his deposit was quite large enough to pay them. Should a bank make a mistake of this kind, it would be liable for all the injury sustained by the depositor from loss of credit, or in any other way attributable to the action of the bank. To guard against such mistakes, some banks have one or more bookkeepers duplicate all ledger entries on loose sheets of paper, who put the account of each depositor on a separate sheet, and from these sheets and from their checks write up the pass-books of depositors. By making a comparison between these sheets and the ledgers any difference is at once noted and corrected. Suppose a check is presented for payment and the ledger does not show a sufficient balance, before dishonoring it the other record is examined, and if this agrees with the ledger, then the evidence is very strong that the accounts have been incorrectly kept; but if they do not agree, an examination would be made immediately to find the error.



BOOK UNLOCKED, READY FOR REMOVAL OF SHEETS.

RECONCILEMENT SHEETS.

Long as this chapter is, one other matter will be noticed before concluding it. As no accounts are more easily manipulated by bookkeepers than those of corresponding banks, "reconcilement sheets" are used in those most prudently managed, whereby, if a bookkeeper makes a false proof, the irregularities leading to it can be traced. The following form is used, which can be easily understood:

First National Bank In Account with Western National Bank. Denver

Chicago RECONCILEMENT OF ACCOUNT TO Nov 30 1896 LIST OF FLOATING DRAFTS.

1896 Date		Items	Amount	Date		Items	Amount	No.	Amount	No.	Amount
Nov	30	Your Balance, to our Credit:	40150 62	Nov	30	Our Balance, to your Debit.	31920 68	81.209	500		
		Our Balance, to your Credit.				Your Balance, to our Debit.		2400	750		
								590	800		
		We Debit (not in your account)				We Credit (not in your account).		1	450		
"	25	Bal Rent 1000$	250	"	26	Coll^n your L 23	529 50	2	325		
"	27	"	2200					6	1008		
"	28	Transfer from KC	5000	"	30	" " " 27th	482 65	7	400 90		
"	30	Remit	306 51					8	529 30		
								9	1022 90		
	30	Xchg your L 27th	75					Totals			
								11/27	2082 35		
								28	2079 25		
								30	2862 10		
		You Debit (not on our Books).				You Credit (not on our Books).					
"	28	Compound	400	"	28	Short Yards and Gases	2500				
"	30	Xchg on our L 25th	65								
					30	Net for Nov	65 90				
						Drafts Afloat.	12809 80				
		PROOF.	48308 53			PROOF.	48308 53		12809 80		

DO NOT OMIT DATES.

BOND FOR LOST CERTIFED CHECK.

Know all Men by these Presents, That I..... .....of No..... ....., in the city of New York, Borough of Manhattan, am held and firmly bound unto The Twelfth Ward Bank of the City of New York in the sum of..... .. .. dollars, lawful money of the United States, to be paid to the said The Twelfth Ward Bank, its successors and assigns, for which payment I bind myself, my heirs, executors, administrators and assigns forever.

Sealed with my seal and dated this tenth day of May, in the year one thousand nine hundred.

Whereas, The said..... ..... having made his certain check or draft to the order of..... ....drawn upon the said The Twelfth Ward Bank for the sum of ..... dollars, dated February 2d.

Whereas, The said check was thereafter duly certified by The Twelfth Ward Bank and charged in the usual manner against the account of said .....

Whereas, That the said check was never received by the said..... but has been lost, and its whereabouts is unknown to the said.....

Whereas, The said..... desires to have his account credited with the said amount of $.....

Now this Indenture Witnesseth, That the said..... .... will forever indemnify and save harmless the said The Twelfth Ward Bank from any loss or damage by reason of the payment of said check by accident or otherwise should the same be presented for payment; and the said..... promises and agrees, in case the said check should be presented for payment and the same be paid by accident or otherwise, to repay the said amount to The Twelfth Ward Bank, its successors or assigns.

In Witness Whereof, The said..... .....has hereunto set his hand and seal this .... day of.....1900.

In presence of: .....

....

STATE OF NEW YORK, COUNTY OF NEW YORK, SS:

On this... day of.....1900, before me personally appeared..... to me known and known to me to be the person described in and who executed the same.

STATE OF NEW YORK, COUNTY OF NEW YORK, SS:

.....being duly sworn, says that he is the owner in fee of the premises known as No..... ....that the same are free and clear of all encumbrances except..... that he is worth the sum of.....dollars over and above all his debts and liabilities.

Sworn to before me this... day of.....1900. ....

BOND FOR LOST PASS BOOK.

Know all Men by these Presents, That I..... .. of the County of Marion and State of Indiana, am held and firmly bound unto the Indiana National Bank of Indianapolis, Indiana, in the penal sum of..... .....dollars, for the payment of which sum, well and truly to be made, I do by these presents firmly bind myself, my heirs, executors and administrators, sealed with my seal and dated this.....day of.....190..

Now, The condition of this obligation is such that, whereas the above named obligor is a depositor with the said Indiana National Bank, and said bank has given to said obligor a pass book showing the various amounts deposited by him with said bank, and whereas said obligor has lost said pass book and is desirous of having said bank give to him a new pass book, and agrees to indemnify and save said bank harmless and free from loss on account thereof.

Now, If the said obligor shall fully protect and indemnify said bank from any loss in any manner whatever on account of said bank giving to him said new pass book, then this obligation is to be void, otherwise to remain in force.

And the said obligor hereby certifies and agrees that the balance of $ ..... due him, as shown by the books of said bank, is correct.

....[Seal]

FORM FOR ASSIGNMENT OF POLICY AS COLLATERAL SECURITY.

(To be attached to and retained with the Policy for use as evidence when required.)

Affix Revenue Stamp.
Rate — On loans exceeding $1,000 and not exceeding $1,500, 25c; and on each $500 or fractional part thereof in excess of $1,500, 25c.

For and In Consideration of the Sum of One Dollar to..... in hand paid by..... whose P. O. address is..... the receipt whereof is hereby acknowledged, and for securing the money hereinafter mentioned.....hereby sell, assign, transfer and set over unto the said ..... Policy No.....issued by The Equitable Life Assurance Society of the United States, on the life of ..... with all right, title and interest therein, together with all moneys which may be now due or hereafter payable thereunder and all dividends, benefits, options and advantages to be derived therefrom, including the right to surrender said policy and to receive the surrender value thereof, accounting to the assignor for any surplus which may be realized over and above the amount due upon said loan.

And for the above consideration.....do also for.....executors and administrators, guarantee the validity and sufficiency of the foregoing transfer and pledge of said policy to said assignee.....executors, administrators or assigns; and their title thereto will forever warrant and defend.

Upon condition that this assignment shall be void, and the interest of the assignee released, upon the repayment of the sum of. .... dollars to the said ..... to secure which this pledge is made, and after notice of such repayment is given to said society in writing.

In Witness Whereof.....have hereunto set.....hand..and seal.. this .....day of.....189..

In the presence of } [SEAL]
..... }

STATE OF..... }
} ss:
COUNTY OF ..... }

On this.....day of..... ...in the year of our Lord 189.., before me personally came. ..... to me known and known to me to be the individual..described in and who executed the foregoing assignment, and acknowledged that. ..... executed the same. .....

(Perforate)

COPY OF ASSIGNMENT.

(To be detached and sent to the society as notice of the above.)

This *copy* need not be stamp'd, but *state below* the amount in Revenue St'mp that has been affixed to the assignment.

For and In Consideration of the Sum of One Dollar to..... in hand paid by ..... whose P. O. address is ..... the receipt whereof is hereby acknowledged, and for securing the money hereinafter mentioned.....hereby sell, assign, transfer and set over unto the said ..... Policy No.....issued by The Equitable Life Assurance Society of the United States, on the life of ..... with all right, title and interest therein, together with all moneys which may be now due or hereafter payable thereunder and all dividends, benefits, options and advantages to be derived therefrom, including the right to surrender said policy and to receive the surrender value thereof, accounting to the assignor for any surplus which may be realized over and above the amount due upon said loan.

And for the above consideration.....do also for.....executors and administrators, guarantee the validity and sufficiency of the foregoing transfer and pledge of said policy to said assignee .....executors, administrators or assigns; and their title thereto will forever warrant and defend.

Upon condition that this assignment shall be void, and the interest of the assignee released, upon the repayment of the sum of..... ..... dollars to the said ..... to secure which this pledge is made, and after notice of such repayment is given to said society in writing.

In Witness Whereof.... ...have hereunto set.....hand..and seal.. this.....day of.....189..

In the presence of } [SEAL]
..... }

PROXY.

Know all Men by these Presents, That I .....

do hereby constitute and appoint..... .....
Attorney and agent for me and in my name, place and stead, to vote as my proxy at any

election.....
according to the number of votes I should be entitled to cast if then personally present.

In Witness Whereof, I have hereunto set my hand and seal this.... ....day

of..... .....one thousand eight hundred and ninety.....

Sealed and delivered in the presence of .....

.....

COLLATERAL NOTE.

$..... INDIANAPOLIS, IND.....190..

.....after date....promise to pay the order of Columbia National

Bank of Indianapolis, Ind..... ..... dollars, at..... for value
received, without any relief from valuation or appraisement laws, with interest at the rate

of.....per cent. per annum after maturity, having deposited with.....

as collateral security.....

which..... hereby give the said.....authority to sell, or any part thereof, on the maturity of this note, or at any time thereafter, or before, in the event of said securities depreciating in value, at public or private sale, at their discretion, without

advertising the same, or giving .....any notice, and to apply so much of the proceeds thereof to the payment of this note as may be necessary to pay the same, with all interest

due thereon; and also to the payment of all expenses attending the sale of the said.....

and in case the proceeds of the sale of the said..... .....shall not cover the principal,

interest and expenses.....promise to pay the deficiency forthwith after such sale.

....

.....

COLLATERAL NOTE.

NEW YORK..... 190..

The Following Securities, viz.: .....

.....

.....

are this day deposited by the undersigned with the National Citizens' Bank of the City of New York, which, together with any other securities now or hereafter in the possession of said bank in which the undersigned may have any interest, are to be held by said bank, its successors or assigns, as collateral security for the payment of any and all checks, drafts, notes, endorsements or overdrafts made, or discounts obtained, direct or contingent obligations and liabilities, and other indebtedness, heretofore incurred or hereafter created by the undersigned, now due or to grow due to said bank; and said bank without demand for payment or any notice to the undersigned may sell the same at public or private sale, and, if at public sale, may become the purchaser thereof, or may collect said securities in the place and stead of the undersigned, with or without suit, and, after deducting the expenses of such sales or collections, the said bank, its successors or assigns, may hold, use and apply the proceeds towards the payment of any indebtedness, obligation or liability of the undersigned to said bank, its successors or assigns, rendering any overplus to the undersigned. In the event of the suspension, failure or insolvency of the undersigned, or any change that materially reduces the ability of the undersigned to pay all claims and demands against the undersigned at maturity, any and all direct and contingent obligations and indebtedness of the undersigned to the said bank, whether evidenced by notes or otherwise, shall become immediately due; and in any such event said bank is authorized by the undersigned to offset and apply the balance to the credit of the undersigned at that time on its books toward the payment of any such obligations and indebtedness. ....

COLLATERAL NOTE.

$..... ..... NEW YORK... ....19....

....with interest at..... per cent. per annum,
.....promise to pay The Twelfth Ward Bank, or order, at the place of business of said
Bank ....Dollars,
for value received, having deposited with said Bank as collateral security.....
....
with the right on the part of The Twelfth Ward Bank, its President or its Cashier, from time to time to demand such additional collateral security as said Bank, its President or its Cashier may deem sufficient; and upon failure to comply with any such demand when made, this obligation shall forthwith mature and become due and payable notwithstanding any other time herein specifically mentioned. And upon the maturing of this obligation,
.....hereby authorize said Bank, its President or its Cashier, to sell and deliver without
any advertisement or notice to..... .....at the Board of Brokers, or at public or private sale, at the option of said Bank, its President or its Cashier, the whole or any part of such securities held as collateral, with the right on the part of said Bank to become the purchaser thereof at such sale or sales, freed and discharged from any
equity of redemption, accounting to .....
for the surplus, if any, and in case of deficiency.... .....promise to pay to said Bank the amount thereof on the day of such sale, with legal interest, and all legal costs and expenses connected with said sale or sales; and it is hereby understood and agreed that if recourse is had to the collaterals, any excess of collaterals upon this obligation shall be
applicable to any other obligations or claims held by said Bank against..... ....
.... and in case of any exchange of or additions to the collaterals above named, the provisions of this obligation shall extend to such new or additional collaterals.

COLLATERAL NOTE.

$..... ..... NEW YORK.....18....

....after date.....promise to pay to the Gallatin National Bank of the City of New York, or order, at the banking house of said Bank, in funds current at the New York clearing house ....Dollars,
with interest at the rate of..... ..per cent. per annum, for value received, having deposited with said Bank as collateral security..... .. ..
....
which .....hereby authorize said Bank or its President or Cashier to sell, without notice, at the Board of Brokers, or at public or private sale, at the option of said Bank or its President or Cashier, in case of the non-performance of this promise, applying the net proceeds to the payment of this note, including interest and accounting to.....for the surplus, if any. In case of deficiency.....promise to pay to said Bank the amount thereof forthwith after such sale, with legal interest; and it is hereby agreed and understood that if recourse is had to the collaterals, any excess of collaterals upon this note shall be applicable to any other note or claim held by said Bank against .....and in case of any exchange of or addition to the collaterals above named, the provisions of this note shall extend to such new or additional collaterals. The margin of collaterals on this note to be kept at not less than twenty per cent., or in default thereof the same to be payable on demand.

It it also agreed, that upon any sale of any of said collaterals said Bank may become the purchaser thereof and hold the same thereafter in their own right absolutely free
from any claim of ....

COLLATERAL NOTE.

NEW YORK..... .....188..

The Following Securities, viz.: ....
....
are this day deposited by me with The Twelfth Ward Bank of the City of New York, to be held by said Bank, its successor or assigns, as collateral security for any and all checks, drafts, notes, endorsements or overdrafts made, or discounts obtained, or other indebtedness incurred, by me, my legal representatives or assigns and due or to grow due, to
said Bank. . . ..

AUTHORIZATION FOR LOAN.

To the Twelfth Ward Bank: NEW YORK .....190..

GENTLEMEN—At a meeting of the Trustees of. ..... held this day, the following members being present and voting in the affirmative:

.....

.....

.....

It was Resolved, That..... .....be duly authorized to make application for a loan of..... .....Dollars.

And it was Further Resolved, That said authorization shall apply to any or all renewals of the same, and any further loans or discounts which shall be made for the benefit of the Church. .....

[SEAL] Secretary.

PROMISSORY NOTE.

$..... NEW YORK..... .....189..

... .after date..... promise to pay to the Produce Exchange Trust Company, or order, at its office in the City of New York, the sum of..... ....Dollars, for value received, in United States gold coin of or equivalent to the present standard of weight and fineness, having deposited herewith, and pledged as collateral security to the holder hereof, the following property, viz.: ....

.....

....

with authority to the holder hereof to sell the whole of said property, or any part thereof or any substitutes therefor, or any additions thereto, at any Brokers' Board, in the City of New York, or at public or private sale in said city or elsewhere, at the option of such holder, on the non-performance of any of the promises herein contained, without notice of amount claimed to be due, without demand of payment, without advertisement and without notice of the time and place of sale, each and every of which is hereby expressly waived.

It is agreed, that in case of depreciation in the market value of the property hereby pledged (which market value is now $.....) or which may hereafter be pledged for this loan, a payment shall be made on account of this loan upon the demand of the holder hereof, so that the said market value shall always be at least.....per cent. more than the amount unpaid of this note, and that the holder may immediately be reimbursed by selling the said property or any part thereof. In case the net proceeds arising from any sale hereunder shall be less than the amount due hereon ....promise to pay to the holder, forthwith after said sale, the amount of such deficiency with legal interest.

It is further agreed, that any excess in the value of said collaterals, or surplus from the sale thereof beyond the amount due hereon, shall be applicable upon any other note or claim held by the holder hereof, against.....now due or to become due, or that may be hereafter contracted; and that, if no other note or claim against.....is so held, surplus, after payment of this note, shall be returned to.....or.....assigns.

It is further agreed, that upon any sale by virtue hereof, the holder hereof may purchase the whole or any part of such property discharged from any right of redemption, which is hereby expressly released to the holder hereof, who shall retain a claim against the maker hereof for any deficiency arising upon such sale.

It is further agreed, that any moneys or property at any time in the possession of the Produce Exchange Trust Company belonging to any of the parties liable hereon to said Company, and any deposits, balance of deposits, or other sums at any time credited by or due from said Company to any of said parties, may at all times, at the option of said Company, be held and treated as collateral security for the payment of this note or the indebtedness evidenced hereby, whether due or not due, and said Company may at any time at its option set off the amount due or to become due hereon against any claim of any of said parties against said Company, other than for said avails or the amount loaned hereupon. .....

Pay to the order of Produce Exchange Trust Company.

And.....further agree..to all the terms and conditions of the within note and hereby waive demand, protest and notice of protest thereof, and notice of sale and advertisement of collateral securities held therefor, and.....hereby consent to and ratify all changes and substitutions and withdrawals of collateral securities held for said note.

PROMISSORY NOTE.

NEW YORK.....1899.

In Consideration of the stationery supplied to me by The Twelfth Ward Bank as a depositor in said Bank, and for other expenses (except special messenger service) which the said Bank may incur in connection with my account in said Bank,

I Hereby Agree to pay to The Twelfth Ward Bank one dollar and fifty cents per month from the date hereof in cash, or the said Bank may charge said monthly sum to my account. This agreement to continue until my account in said Bank shall show an actual daily average balance of $200.00 for a period of three consecutive months.

Witness: .....

....

SPECIAL POWER OF ATTORNEY TO TRANSACT BANKING.

CO-PARTNERSHIP—ALL PARTNERS TO SIGN:

Know all Men by these Presents, That we..... ....

.....

.....

composing the firm of..... .....

of.....have made, constituted and appointed, and by these presents do make, constitute and appoint..... ....our true and lawful attorney for us and in our said firm name, place and stead to deposit in said firm name, for the account and credit of said firm in The National Citizens Bank, of the City of New York, cash, bills, notes, drafts, checks and other written obligations for the payment of money, to endorse, in said firm name, any and all such bills, notes, drafts, checks and other written obligations necessary for such deposit, and to sign and execute, in said firm name, any and all checks, drafts and other written obligations necessary to withdraw all moneys and funds placed to the credit of said firm in said bank.

Special Power to Borrow. And also for our account to borrow money from the said bank, and to make, execute, sign, seal, endorse and deliver to the said bank, for us, and in our name, notes, bonds, or other instruments in writing necessary therefor, and as collateral security for such loans, to assign, transfer and set over to the said bank, stocks, bonds, warehouse receipts or other personal property whatsoever.

It being understood and agreed that this power shall stand irrevoked and in full force until notice thereof shall be given, in writing, by our legal representatives to said The National Citizens Bank; hereby giving and granting unto our said attorney full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully, to all intents and purposes, as the said firm might or could do if personally present, with full power of substitution and revocation, hereby ratifying and confirming all that said attorney or.....substitute shall lawfully do or cause to be done by virtue hereof.

In Witness Whereof, I have hereunto set my hand and seal the .....day of.....in the year one thousand nine hundred and.....

Sealed and delivered in the presence of

....

STATE OF NEW YORK, COUNTY OF NEW YORK, SS:

Be It Known, That on the.....day of..... one thousand nine hundred and.....before me ..... Notary Public in and for the State of New York, duly commissioned and sworn, dwelling in the County of New York, personally appeared ....

.....

composing the firm of ....

to me known and known to me to be the individuals described in, and who executed the within Power of Attorney, and acknowledged to me that they executed the same.

In Testimony Whereof, I have hereunto subscribed my name, and affixed my seal of office, the day and year last above written.

SPECIAL POWER OF ATTORNEY TO TRANSACT BANKING.

INDIVIDUAL.

Know all Men by these Presents, That I..... .....

of..... .....have made, constituted and appointed, and by these presents do make, constitute and appoint..... .....my true and lawful attorney for me and in my name, place and stead to deposit in my name, for my account and credit, in The National Citizens Bank of the City of New York, cash, bills, notes, drafts, checks and other written obligations for the payment of money, to endorse, in my name, any and all such bills, notes, drafts, checks and other written obligations necessary for such deposit, and to sign and execute, in my name, any and all checks, drafts and other written obligations necessary to withdraw all moneys and funds placed to my credit in said Bank.

Special Power to Borrow. And also for my account to borrow money from the said Bank, and to make, execute, sign, seal, endorse and deliver to said Bank, for me, and in my name, notes, bonds, or other instruments in writing necessary therefor, and as collateral security for such loans, to assign, transfer and set over to the said Bank, stocks, bonds, warehouse receipts or other personal property whatsoever.

It being understood and agreed that this power shall stand irrevoked and in full force until notice thereof shall be given, in writing, by my legal representatives to said The National Citizens Bank; hereby giving and granting unto my said attorney full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully, to all intents and purposes, as I might or could do if personally present, with full power of substitution and revocation, hereby ratifying and confirming all that my said attorney or ....substitute shall lawfully do or cause to be done by virtue hereof.

In Witness Whereof, I have hereunto set my hand and seal the..... .....day of.....in the year one thousand nine hundred and.....

Sealed and delivered in the presence of

.....

STATE OF NEW YORK, COUNTY OF NEW YORK, SS:

Be it Known, That on the.....day of.....one thousand nine hundred and..... before me..... a Notary public in and for the State of New York, duly commissioned and sworn, dwelling in the County of New York, personally appeared..... .....

to me known, and known to me to be the individual described in, and who executed the within Power of Attorney, and acknowledged to me that he executed the same.

In Testimony Whereof, I have hereunto subscribed my name, and affixed my seal of office, the day and year last above written.

POWER OF ATTORNEY.

TRANSFER OF STOCK—IRREVOCABLE.

Know all Men by these Presents, That..... .....

for value received, have bargained, sold, assigned and transferred, and by these presents do bargain, sell, assign and transfer unto .....

standing in.....name, on the books of the..... ... .

and do hereby constitute and appoint..... .....

.....true and lawful Attorney..irrevocable. .....for and in.....name and stead to.....use, to sell, assign, transfer and set over all or any part of the said stock, and for that purpose to make and execute all necessary acts of Assignment and Transfer, and one or more persons to substitute with like full power, hereby ratifying and confirming all that.....said Attorney..or substitute or substitutes shall lawfully do by virtue hereof.

In Witness Whereof.....have hereunto set.....hand..and seal..the ....day of..... .....one thousand eight hundred and ninety.....

Sealed and delivered in the presence of .....

....

POWER OF ATTORNEY.

For Value Received.....hereby sell, assign and transfer unto .....

.....

.....shares of the within mentioned stock, and.... ..do hereby constitute and appoint.....Attorney, to transfer the same on the books of the Bank.

Witness.....hand and seal this.....day of December, 1901.

Witness: ....

....

CHAPTER XIX.

THE RUNNER AND PORTER.

He is a young man, and occupies the lowest position in the bank. He is simply a messenger to collect drafts and notes. Boys are hired who are eighteen to twenty years old, are paid a small salary, and are quickly trained to go around the city with notes and drafts for collection. Their instructions are simple and definite. They must not take anything beside a certified check or good money, unless instructed by the note teller to do otherwise. He has charge of the runners, who are promoted whenever vacancies occur. Many bank clerks and not a few cashiers and presidents began as runners.

In London a bank messenger or runner is called an out teller, or collecting clerk. His duties are quite the same, though his methods differ in some respects. When he starts out from the bank, on what is there termed his "walk," he leaves behind him a record of the route he is to travel, and of the collecting, notifying, and presenting he is to do, in a book called the Walk Book. In this way the bank is kept informed of the whereabouts of their absent messenger, a bit of information that must be highly appreciated. In our banks and offices the inquiry, "Where is that messenger?" has become as familiar as the question, "Where are the police?" The London collecting clerk, or out teller, invariably has his wallet strapped to his body with chain and belt, a practice which has in some cases been copied here, and ought to be here more widely in vogue. The drafts which he takes upon his route for presentation, for acceptance, are always left with the drawees, who have twenty-four hours in which to return them to the bank.

The porter is the janitor. His duty in some banks is to appear when the watchman leaves at six o'clock in the morning. He puts the bank in order, and stays until the clerks come, then takes all the books out of the vault and puts them in their proper places. It is now probably about half-past nine. At night, after the clerks go away, he puts the books back, locks the vault and stays in the bank until the watchman appears at eight o'clock. After the clerks are gone, the janitor, porter or watchman is always present. In some banks the porter is a special messenger during the day. After doing his work

in the morning he retires, and, having arranged his dress, appears again, and is thus engaged during the day. When thus employed, if a bank has any coin to transport, he generally attends to it.

In some banks the duties of the porter are quite different with regard to locking the safe, which is done by one of the clerks. Some banks also have two watchmen. More recently, the electrical watchman has appeared. He mounts guard and is connected with a central office in such a manner that it is quite impossible for any one to do anything with the safe without giving an alarm to those in the central office, who rush to the scene.

CHAPTER XX.

DEALINGS IN EXCHANGE.

A bill of exchange is a familiar instrument, for it is one of the oldest used in commerce. It may be defined as an order by a person on another living in a different place, directing him to pay a sum of money to a third person. Worcester's definition of exchange is: "The method of adjusting accounts or paying debts, when the debtor and creditor are distant from each other, by means of an order or draft called a bill of exchange, so as to avoid the transmission of either money or goods." The person who writes the bill is called the drawer, the person to whom it is addressed is called the drawee, and the person who is to receive the money is called the payee. When the drawee has accepted the bill he is called the acceptor. This is done by writing his name and the word "accepted" across the face of the bill, and also the date if the bill is payable after sight. In accepting a bill, the acceptor cannot vary the terms of it; for example, if it be drawn on a person living in New York, and payable there, he cannot accept it payable in Boston. He must follow the direction in the bill.

The phrase "bill of exchange" is often abbreviated and called simply exchange. In newspaper quotations the one word is generally used. Thus "exchange on New Orleans," or "exchange on London," is quoted at a certain figure. The term is somewhat ambiguous, however, sometimes meaning the rate of exchange and sometimes the instrument. But the term is employed in such relations to other words that persons have no difficulty in understanding what is meant.

What is the use of these instruments, and what purpose do they serve? Suppose that Jones, who lives in New York, owes Williams, of St. Louis, $10,000. Exchange on New York being almost always at a premium, Jones will either send his certified check on his New York bank for the amount he owes in St. Louis, or he will deposit the money in his New York bank, and take the bank's certificate of deposit for the amount, payable to the order of his debtor, Williams, in St. Louis. Williams will have no difficulty in negotiating this certified check, or the certificate of the New York bank, because, as already stated, New York exchange is almost everywhere acceptable. But if, on the other hand, Williams, of St. Louis, desires to pay $10,000 to

Jones, of New York, he will either draw a draft on some party in New York who is indebted to him, and send the draft to Jones, or he will go to his bank in St. Louis and buy, at the current rate, exchange on New York. i. e., the bank's draft on its New York correspondent, payable to the order of Jones. If bills of exchange did not exist, Williams would be obliged to ship the money from St. Louis to New York. This would cost expressage, besides the danger of loss by robbery or other accident, and the loss of interest during the period of transmission.

Many bills are drawn payable at sight, and in certain States these must be paid when presented. In other States, however, the drawees are entitled on sight drafts to three days' grace. To render bills payable at once when presented the words "at sight" are omitted, and the drafts are then payable on demand.

The business of buying and selling exchange is a very large one, especially that of foreign exchange. The buying of exchange comes about in this way. Suppose Williams, of St. Louis, having sold a bill of goods to Jones, of New York, has drawn a bill of exchange on Jones for the amount payable to his (Williams') own order. Williams wants the money at once, perhaps to pay for purchases. He goes to a bank and asks the cashier if he will buy the bill. The cashier looks at it; he knows that the drawee is perfectly good, and that in the event of his failure to pay he can hold the drawer responsible. He buys the bill and pays Williams the money therefor. Transactions of this kind are occurring daily among the banks. Enormous quantities of cotton, wool, breadstuffs, provisions of all kinds and other commodities are bought and paid for by means of bills of exchange. The bank charges the agreed rate of exchange and interest to reimburse itself for the use of the money until the draft or bill can be collected. The bill is then forwarded for collection to the correspondent of the bank in the place where the draft is payable.

It is a very common thing for the western merchant to make advances to the farmer or planter to enable him to grow his crops. He may advance him cash or furnish him with the necessaries of life, usually in either case taking as security a chattel mortgage on his stock and a lien upon the growing crops. Suppose the product to be cotton. When gathered the cotton is shipped to the merchant, who proceeds to sell it for account of the planter, and to reimburse himself for the advances made. When sold the cotton is shipped East, and the transportation company's bill of lading for so many bales is attached to the merchant's draft on the consignee for the value of the cotton; or the merchant may forward the goods to a commission merchant East for sale. He then attaches his draft for the approximate value of the goods, and goes to his local banker and sells his bill of exchange with documents, the latter being endorsed so as to convey the title to the cotton to the owner of the draft.

Merchants in St. Louis, Chicago and the other Western and Southern points are constantly buying merchandise, groceries, dry goods, etc., from merchants in New York and the East. For this merchandise the West and South is indebted to New York and the East. On the other hand, the products of the West and South, cotton, grain, beef, pork, etc., are constantly being shipped North and East.

The transactions in cotton, for example, exceed three hundred millions a year, a large portion of which is consigned to houses in the North, who make advances on the security of these instruments. Formerly the method of doing business was different. Then the banks in New York and other places would not advance on bills of lading and warehouse receipts, and if the broker or merchant did so he had the money from which the advance was made. In those days cotton was sold on sixty days' time. As soon as it was purchased in the North the planter drew on the receiver, and after the bill was accepted the local bank cashed the paper. But now the Southern banks have not enough money to do this business, and cannot take the paper when offered, and consequently the planter consigns the cotton and draws for three-quarters or more, of its value. By the present method, it may be added, the receivers must have more capital than formerly, as then they had two months in which to sell and get money before their acceptances became due.

Several years ago a quantity of wheat was sent from Chicago on a bill of lading to order. The bank in that city advanced on it, and the grain was forwarded, under the direction of the bank, to a certain storehouse, with instructions to keep it until the drafts that represented the advance were paid. As these had several months to run, the storekeeper, who was a speculator, thought it would be a fine thing to use the grain, intending to put other grain, similar in quality and quantity, in its place before the drafts matured. Accordingly, he forwarded it to a house in New York for sale. The consignee was a careful, cautious man. He examined the bill of lading, found that it was genuine, examined the wheat also, and found that it answered the description required, and made a large advance at the request of the consignor on the same. The grain was sold, and the balance, after deducting the charges, etc., was paid over to the storekeeper.

It is needless to add that his speculation turned out disastrously, and consequently he could not replace the wheat. Then the bank in Chicago found out that their wheat was not where they supposed it to be. They traced the wheat into the hands of the consignee of New York, and though he had obtained it in a perfectly honest way, yet, inasmuch as the storekeeper had no title to it, he could convey no title to the consignee, and consequently the latter was held liable. This doctrine has made the business of advancing money on the security of bills of lading more perilous than is agreeabe to bankers and commission merchants, and the question arises whether it is not possible

to grant greater protection to them than they now receive. Ought not common carriers to be held responsible for the acts of their agents in issuing bills of lading? A bill embodying this obligation was introduced into Congress. It substantially declares that bills of lading, issued by an agent authorized to issue such instruments, should be conclusive evidence against the carrier in the hands of a bona fide holder for value, that the freight was actually received as in the bill of lading stated, and that the agent issuing the same had full authority to do so. To prevent this rule from becoming too severe in its practical application as against the carriers, the proposed law contained a further provision that the carrier should not be responsible under the provisions of the same on any bill of lading on which he stamped the words "not negotiable," nor for any statement of fact in such a bill of lading caused wholly by the fraud of the shipper of the merchandise therein named, the holder of the bill, or the person under whom he claimed.

It was hoped that this measure would meet the necessities of the case, for while it is true that much may be said upon the propriety of making principals responsible for the acts of their agents, it is also true that that doctrine may be carried to such an extent as to work positive injustice. To make carriers responsible to an unlimited amount upon bills of lading issued at remote and unimportant stations by agents, of whose actions, owing to the circumstances, carriers have but little actual knowledge or control, is perhaps to increase the risks of the transportation business beyond its legitimate limits.

The practical effect of the bill would be, if enacted, that railroad companies would issue to their agents generally non-negotiable bills of lading, which could not be made negotiable by any erasure or alteration; they would provide their trusted agents at the largest receiving depots with negotiable bills of lading, which would be issued as required.

There is another kind of bill which may be described. A firm in New York sends an agent to Chicago to buy grain. Mr. Snooks, the agent, buys a considerable quantity, and in order to make payment draws on his principal or consignor for the full amount of his engagement. He takes this bill to a bank and asks them to advance the money, as in the case just mentioned. The bank, if having funds, is usually willing to grant the advance requested.

The bank forwards the draft to its corresponding bank in New York, which presents it to the drawee in due time. He accepts it, and pays according to its tenor. In this case, as the wheat is purchased for the consignee, of course he is liable for the amount, and the bill is drawn for the full sum that is due for it.

When a draft is offered for sale, how much will a bank pay for it? To answer this question clearly a brief explanation is necessary. If the business men in New York are selling about as many goods

to the merchants in St. Louis as they, on the other hand, are selling to New Yorkers, then the bills of exchange drawn in both cities will be at par—in other words, they will be transferred from one person to another for just the amount expressed on their face. There may be a very slight difference, enough to pay the banks for the trouble of buying and selling them; but, for the moment, we will leave that fact out of sight. But now, suppose that the merchants of St. Louis are selling the New Yorkers three times as many goods as the former are buying in New York, then the merchants of New York would owe those of St. Louis three times as much money. The reader will perceive that there will be three times as many bills drawn by the merchants of St. Louis as by the New Yorkers, and if all the St. Louis merchants should wish to sell their bills they could not get par for them, because the buyers could not sell them at a profit, for the simple reason that there would be occasion for using only one-third of them in settling the debts due by the St. Louis merchants to the New Yorkers. On the other hand, if all the New Yorkers should desire to sell their bills they could get more than par for them, because the entire amount would settle only one-third of their indebtedness to the St. Louis merchants. The bills, therefore, which the New York merchants would draw on those in St. Louis would command a premium, while the bills drawn by the St. Louis merchants on the New York one would be at a discount. It may be added here, in passing, that the bills drawn by the New York merchants on those in St. Louis would be called St. Louis exchange, and the bills drawn by the St. Louis merchants on those in New York, New York exchange. When the New York merchants cannot get St. Louis exchange at par, but must pay a premium therefor, the rate of exchange as between the two cities is said to be against New York; if the St. Louis merchants should owe a balance to those in New York, then they would be obliged to pay a premium to get New York exchange with which to settle their indebtedness, and the rate of exchange would be in favor of New York. In other words, the rate of exchange is always against the place that owes the most money, and in favor of the place that owes the least. But the rate of exchange does not exceed the cost of transporting specie, and the cost of doing this between many places is small; for this reason the rate of exchange between Boston and New York is very little. Although a great many bills are drawn on these two cities, yet the rate is very low, because they are so near together, and the modes of communication are so perfect that money may be readily sent from one city to the other to discharge any indebtedness which may exist between them which cannot be easily settled with the medium of bills of exchange. Further on we have given quotations of bills of exchange drawn on New York by other places. It will be seen that the rate is only five cents on $1,000 in Boston—a sum too insignificant to be considered. But between New York and other places farther away the rate is higher.

One thing further ought to be said in this connection. At certain seasons of the year a large amount of grain is shipped from the West to the East, also pork, beef, lard, and other provisions; enormous quantities of cotton are shipped from the South, too, and many other articles which need not be mentioned. At the same time, Western merchants are making large purchases in the East, New York, Philadelphia, Boston, and elsewhere. But the purchases made in the East are not so heavy as those made by the Eastern men of the West. The consequence is, there are not enough bills of exchange made in the East to pay all of the indebtedness to the West; in other words, the rate of exchange during those seasons of the year is pretty steadily against the Eastern cities. When the balance becomes large and the rate of exchange considerable, it is absolutely necessary to remit currency to the West to restore the balance of trade. There is no other way of restoring it. Years ago, when money was less plentiful in the West than it is at the present time, there was a more urgent need of transmitting money to effect these settlements. Even now, large quantities go at certain seasons of the year.

The banks buy bills of exchange in order to sell them again; this is a part of their regular business. They buy at one rate and sell at a higher rate. When the exchange is said to be at par between two cities it is not strictly so, inasmuch as a bank will not give quite as much for a bill of exchange as it asks for one when selling it. Of course, if it bought and sold at the same price no profit would be made in the business, and there would be no reason for undertaking it; hence, the buying and selling rate is never the same. Thus, in an ordinary newspaper report we find the following, which is extracted from the New York Journal of Commerce of August 1st:

The following are the rates of exchange on New York:

Savannah, buying ⅛; selling, ¼ premium.

Charleston, buying par@⅛; selling 3-16@¼ premium.

New Orleans commercial, $1.50 per $1,000 premium; bank, $2.50 per $1,000 premium.

St. Louis, 50c per $1,000 premium.

Chicago, 75c per $1,000 premium.

Boston, par@5c per $1,000 discount.

When a Charleston bank, for example, buys exchange on New York, it expects to sell it again to persons who have payments to make in the latter city. It does not sell the same bills that it buys; it could do so, however, if any persons desired them. What the bank actually does is to forward the bills purchased to the bank with which it corresponds in New York for collection; that bank presents them to the drawee at the proper time and they are paid, and the amount is credited to the Charleston Bank. When a man enters the Charleston Bank desirous of buying a bill of exchange on New York, it simply draws a bill on its corresponding bank in that city and sells

it to the party desiring the same, charging him therefor whatever the prevailing rate may be at that time. Just now, as will be seen from the above quotation from the newspaper, the rate is one-quarter of one per cent.

Banks do not always charge their customers for a bill of exchange, either when selling or collecting it. The custom, however, of charging generally prevails among banks; nevertheless, the fact that exceptions are sometimes made is worth noting. In the exceptional cases the dealer's account may be a very profitable one, and this favor is shown to him as a kind of reward or gratuity or permium to make him feel better satisfied with the bank. But a gratuity of this kind granted to a dealer is rather an outside matter, and does not pertain strictly to the banking business.

It may be stated in this connection that some depositors, instead of going to their bank and buying a bill of exchange when they wish to pay a debt due in another city, send their check to the person whom they owe; he receives it and deposits it in his bank which afterwards sends it for collection to the bank on which it is drawn. It will be seen that the depositor by doing this cuts off his bank from selling him a bill of exchange, and his real object of doing this is to save money by the operation. This has become a subject of considerable complaint among bankers. The question has been raised whether some method cannot be devised for collecting these checks, and thereby effecting a considerable saving among all the parties concerned. In that part of this work relating to the Clearing-house, a chapter will be found pertaining to this subject.

In regard to foreign bills, what we have already said applies in most respects to them. The rate of exchange does not exceed the cost of shipping gold from the debtor to the creditor. As between Great Britain and our own country this cost does not exceed two cents to the pound sterling.

There are occasions though when the exchanges sink and rise much below the specie point, which is not accounted for by the single fact of a balance of indebtedness, either for or against a given country. Such an occasion occurred early in 1861, when war was impending between the North and South. Fluctuations in the American rates of exchange extended far below the specie point. The balance of trade was in favor of the United States, and a large sum was due from Great Britain. Yet, exporters sacrificed three or four per cent. on their bills in order to get their money immediately. The exporter had two courses open to him—either to sell his bills for what they would fetch, or to transmit them to Europe with instructions to his correspondents to demand payment and remit the amount in bullion. The former course was pursued, consequently the bills were sold at a large sacrifice.

The items determining the question whether to send specie or buy a bill of exchange are the following: Cost of sending specie, insurance

thereon, and the loss of interest on the specie during shipment from one country to the other.

Suppose that Jones owes a bill in London; he goes to a house in Wall street which deals in foreign bills. The par of exchange between the two countries is $4.86 65-100; that is the legal value here of a pound sterling. The question in Jones' mind when he goes into this house is, whether he shall buy a bill and send that to London in discharge of his debt, or whether he shall transmit specie for the same purpose. Of course, he will do the thing which is cheapest. Remembering that the par of exchange between the two countries is $4.86 65-100, and that the cost of shipment is two cents in the pound, if he can buy a bill at less than $4.88 65-100 of course it would be cheaper for him to buy the bill than to send the specie. On the other hand, if he were obliged to pay more than $4.88 65-100 for the bill, then it would be cheaper to send the specie.

Suppose an Englishman has a debtor in New York who owes him £10,000, payable in that city, shall he send over there and get the money and import it into his own country, or shall he draw on his debtor for the amount and sell the bill? Remembering that the par of exchange is $4.86 65-100, and that it will cost him two cents in the pound to transport his specie, it is clear that any sum which he can get for his debt exceeding $4.84 65-100 is a saving on the importation of gold. On the other hand, if he cannot sell the bill for $4.84 65-100, but only for a sum considerably less than that figure, his more profitable course is to import specie.

When bills are payable on time, say 30, 60 or 90 days, they command a lower price than when they are payable at sight. The reason is, the buyer pays cash; he sends the bill to Great Britain to pay his debt, but it is not paid, say, for 60 days, and as he is out of the money during the interval the bill is bought at a reduced rate.

The sum paid for a time-bill, therefore, will depend on the length of time it has to run and the rate of interest in the country where the bill is payable. A bill drawn payable in London three months after date is bought by a banker at a price which is equal to a bill payable on demand, less three months' interest at the rate at that time prevailing in London, for the purchaser must discount the bill there at the ruling rate before he can make it equally available with a draft on demand. It may be added, that when foreign bills are bought as an investment, a thing often done, it is for the purpose of earning the higher rate of a foreign country, in the place of the lower rate ruling at home.

It may be well to note that when bills are quoted at $4.84 the quotation does not mean that they are two per cent. less than par, but simply that they can be bought for two cents and 65-100 less than the regular value of a pound sterling. If, for example, a bill of exchange were drawn for £1,000, the amount would be equivalent to $4,866.50;

if it were quoted at $4.85, this quotation would mean that the bill could be bought for $4,850.00, or $16.50 less than the par of exchange.

Within a few years the practice has arisen of transferring money by telegraph, or, as it is termed by the newspapers, "cable transfer." By this method a merchant who desires to ship wheat to London can complete the transaction in a few hours. He can ship the wheat, telegraph the fact to the consignee at London, obtain particulars concerning the conditions of the market, and, if he think best, have the wheat sold at once, "to arrive," and to remit the proceeds through a London banker. A bill does not appear at all in the transaction. The amount of business done in this manner has materially reduced the volume of bills in some places. In the Eastern trade with London, in which competition is exceedingly keen and the margin of profit consequently small, the telegraphic transfer system has been in use for several years. The amount of cable transfers between this country and European countries is constantly increasing.

CHAPTER XXI.

STATE BANKS.

On the 31st of October, 1900, there were 3,935 national banks, while the number of state banks was 4,369. But the resources of the national banks were much greater—$4,944,100,000; the state banks having but little more than one-third of this amount—$1,759,835,802. Yet this is a large sum, and the state banks are highly important institutions.

Some statistics relating to their location may not be without interest. Missouri still leads the list, having 510; Nebraska follows with 405, and Kansas 384. Kentucky has the next largest number, 219, Iowa has 214, New York 200, Michigan 194, California 178, Minnesota 188, Ohio 164, and Illinois 155.

LOCATION OF STATE BANKS.

State.	No.	State.	No.
Alabama	20	Montana	15
Arizona	14	Nebraska	405
Arkansas	39	New Jersey	20
California	178	New Mexico	6
Colorado	30	New York	200
Connecticut	8	North Carolina	54
Delaware	2	North Dakota	129
Florida	23	Ohio	164
Georgia	144	Oklahoma	71
Illinois	155	Oregon	19
Indiana	96	Pennsylvania	95
Iowa	214	Rhode Island	
Kansas	384	South Carolina	27
Kentucky	219	South Dakota	109
Louisiana	56	Tennessee	5
Maryland	26	Utah	20
Michigan	194	Virginia	95
Minnesota	188	Washington	27
Mississippi	101	West Virginia	83
Missouri	510	Wyoming	9

The Government imposed a tax of ten per cent. on the circulation of the State banks, which took effect on the first of July, 1866, under an amendment to the law creating the National banking system. This rate was too high to allow any profit on the State bank circulation, and consequently it was withdrawn. Indeed the object of the law was to expel it, in order to make room for the circulation of the National banks. In other respects, however, the State banks are conducted as they were before the creation of the National banking system. But the internal mechanism of a State and National bank is quite the same, and, therefore, in describing the methods of conducting a discount bank, no distinction need be kept in mind between a National and State bank. The former alone issues circulating notes, and the mode of doing this will be explained more fully hereafter. The main function of receiving deposits and of loaning them is performed in essentially the same way by all banks. Of course, there are minor differences; every bank has some ideas of doing business that are peculiar to it, but it may be truly said that the main features of the banking business are the same throughout the country. The greatest differences exist between banks in the large cities and the small places, and these will be explained in their proper place.

State banks possess some advantages, in the opinion of some bankers, that are worth mentioning:

1. They are not examined so critically; in some cases are not required to make returns to State officials, and in no case are such full returns required as the National law requires to be made. Yet the numerous requirements by the Government strengthen public confidence in the banks, and probably the majority of banking officials would not have them removed or lessened if they could. Not all think so, however; hence some banks remain under the shadow of the State instead of the Nation, because they are watched less closely and can do things which would not be permitted if they were National banking institutions.

2. There is another advantage which State banks claim to possess over their National rivals. They can certify checks in excess of the amount which the depositor may have at the moment of certifying. The National banks are expressly forbidden to do this. In several cases they disregard the law, but the Controller of the Currency dealt with the offenders so severely that the banks which were the most desirous of continuing the practice withdrew and reorganized as State banks. The institutions that withdrew were located in New York City, and they maintained that whatever advantages they would gain if they continued to exist as National banks would not equal their losses if the practice of over-certifying could not be continued. Wishing to continue it and not infringe the law, they became State banks, and as such could continue this objectionable practice without legal hindrance.

The banking laws of the States possess many variations, and we have not space for even an abridgment of them. As no State banks issue circulating notes, all regulations pertaining to that subject are dormant. In recent years, however, many of the States have revised their banking laws, conforming them more nearly with the National bank act.

CHAPTER XXII.

PRIVATE BANKS.

Although of less relative importance than formerly they were, private banks continue to maintain a good standing, and prove well adapted to some phases of the business of banking. The capital employed by a private bank is apt to be variable in amount, not a fixed sum represented by stock certificates, so that the returns, which are made the basis of a tax, probably represent the minimum of capital employed.

In addition to this, it may be said that many of the State banks, while running as such, are in reality private institutions, the capital stock being held by one or two owners, and the directorship being nominal. This use of bank organizations is facilitated by the ease with which they can be formed in most of the States, and is resorted to from various reasons. In some cases it is to have the benefit, when starting a new concern, of the prestige and credit which the title of "bank" is supposed to give; in others, and more frequently, to secure the immunity of limited liability; in others, again, to retain the name and clientage of a long-established business.

Private banks have furnished the foundation of many of the National banks now existing. They were established, flourished for a few years, acquired a good reputation, and were then organized into National banks. Such is their origin in many places, especially in the Western and Southwestern States.

In using the figures found in the reports of the Controller of the Currency, it must be remembered that they are by no means complete. Many private banks make no returns whatever, as they are not required to do so by any law. All the returns are purely voluntary. Doubtless the entire capital and other resources of private banks are much larger than the figures contained in the Controller's reports indicate. For this reason comparisons with the National banks are misleading, as complete returns are made of all their resources and liabilities. The Controller's figures are used because from no other source can as many be obtained.

The first table to be presented relates to the resources and liabilities of private banks during the last five years,

RESOURCES OF PRIVATE BANKS BY STATES FOR 1896.

New York	$6,076,674
Pennsylvania	8,586,171
Maryland	309,980
North Carolina	1,368,459
Georgia	111,262
Alabama	730,886
Texas	6,847,262
Ohio	7,422,012
Indiana	9,821,482
Illinois	13,019,453
Michigan	2,352,996
Wisconsin	7,072,410
Iowa	9,918,004
Minnesota	2,648,172
Missouri	6,801,792
South Dakota	3,176,949
Washington	1,567,916
California	2,632,475
Montana	401,060
Idaho	411,727
Wyoming	841,712
Nevada	777,265
Colorado	1,244,408
Indian Territory	207,604
Total	$94,348,131

The general character and function of the private banks is shown by their small averages, and also by their geographical distributions. Nearly two-thirds of their number, and over fifty per cent. of their deposits, are reported from the Western States and Territories. It is in that region of new and small communities where active enterprise and industry abound, along with a plentiful lack of capital, that the conditions are found most favorable to their establishment and maintenance. A town too small to establish or support a National bank, with a capital of fifty thousand dollars, may yet feel the need of banking facilities, and this need becomes more and more pressing until a leading merchant, or some man who has been in the way of buying notes or making small loans at remunerative rates, either assumes or gradually has forced upon him the functions of a banker and puts out his sign. His capital may be, and usually is, small at the outset, but in a rural community every man is known to his neigh-

bors. His "means" are closely estimated, his integrity and ability are pretty correctly gauged, his habits and manner of life are known. In respect to these he is subjected, not to periodical and perfunctory examinations by National or State officials, but to continuous and rigid watchfulness by self-constituted examiners who are very apt to reach correct results, although they are not permitted to count his cash or scrutinize his bills discounted and his ledger. If he passes this investigation successfully he will win the confidence of his townsmen and his business will prosper. Such has been the origin of many of the largest and most respectable private institutions now in existence.

Private bankers, so far as they command public confidence, do so upon their reputation for wealth and their character for honesty and ability, and these are applied directly to the management of the business confided to them. Under these circumstances there must be, other things being equal, a greater concentration of responsibility, a stronger sense of direct, personal liability than is felt by either the directors or officers of incorporated institutions, so that this form of banking offers to the dealer, equally with any other system, that which must after all be his chiefest and best guaranty, namely, faith in the integrity and capacity of the management.

Private banks, however, lack one important quality, that of permanency. Especially is this the case in the United States, and as, from various causes, they may be wound up, they are little likely, in the great cities and larger towns, to be replaced by similar institutions. Gradually, with the growth and development of the country, the function which they are best fitted to fill diminishes, and their business is merged into or usurped by National and State banks; and this tendency will continue.

As to the details of their management, little need be said. These should in no wise differ from those of well-conducted National and State banks, and for the most part they are so managed. In rare instances private banks have adopted the practice of making public reports of their condition, and publishing them along with those furnished periodically by their National and State competitors. It would be well if in some way this could be made a universal custom.

Occasionally there is to be found a banker who affects to despise theory and red tape, names by which he designates the restrictions which it is the intention of National and State statutes to impose, but it will generally prove that, if successful, he adheres to their substance if not to their form. The advantages which are sometimes claimed to be found in an immunity from these salutary requirements are questionable. So far as such so-called advantages are embraced, their tendency is to allure men from the safe paths of correct banking; the prudent and successful bankers, under any system, are those who hold themselves strictly amenable to the rules and principles which experience has proved ought to govern.

A few words should be said about the large banking houses that are only to be found in great commercial centers like New York. Many of them were originally founded with a view to conducting a regular banking business, of receiving deposits and discounting commercial bills, and numbers of them continue to do a large business of this kind, especially for out-of-town correspondents. But they have, for the most part, gone largely into the business of placing corporate loans, of acting as agents for states and municipalities, and of dealing in foreign exchange. Along with their growth in this direction there has been a decline in that which may be more strictly termed banking, until many of them have come to resemble the great financial firms of London, who style themselves merchants, not bankers.

Several of the larger banks in New York have from time to time sought to enlarge their dealings in foreign exchange, but never with any marked degree of success. The causes of this are not far to seek. A busy banker engrossed in the management of a large line of deposits and discounts cannot scan with sufficient care the wide field of foreign exchanges. The conditions of supply and demand, the different standards of money, the changing rates of interest in the various financial centers, and the numerous other influences, ordinary and extraordinary, which affect the business of exchanges, demand nothing less than constant study by the man who would master them, and their perfect mastery is necessary. It is probable, too, that the foreign agencies which are available for a bank to employ do not render the effective service that is requisite; that the London and Continental branches, having common interests, which form a part of the organization of all the large houses dealing in exchange, are essential to success. This segregation of the exchange business from that of banking is, however, but an illustration of the inevitable tendency to specialization which marks commercial progress.

CHAPTER XXIII.

COUNTRY BANKING.

General principles of banking apply alike to banks irrespective of location. Details in conducting the business may be materially influenced by the bank's position in the country. The routine of large banks in commercial centers is usually the outgrowth of long experience, careful experiment and constant thought of improvement. The bank president in a country town, though he may have carved his way to position, through gradual advancement from runner or sweeping-boy, would, if placed at the head of one of the large banks of a metropolitan city, be found unable to manage its affairs. He may be a better financier and possess greater executive ability than many city bank presidents, but he would lack in that particular knowledge which comes only from experience. What we say of bank presidents will apply as well and possibly with more strength to other officers and to the clerical force. And in selecting the president in our illustration we do not refer to that class who are presidents only in name. We mean presidents who are in every sense entitled to the position. And, thanks to the progress of the times, figurehead presidents are not so numerous now as a few years ago. Sharp competition has lifted banking to a science. It has brought capable heads almost without exception into president's chairs. This is true of country as well as of city bank presidents.

However true the above, it furnishes no evidence that less capability, thoroughness, or good financiering is required in the country than in the city bank. Especially good judgment, careful calculation, and a close watch over the finances are requisite in conducting a country bank. Opportunities to loan money are not often as favorable in the country as in large business centers. The securities offered, too, are of a different kind. The country banker's customers are more frequently personal acquaintances and friends. He is called upon oftener to lay aside personal and friendly considerations in loans and discounts. He must know his customers better because he trusts them more on personal obligations. Loans in large cities are made largely on collateral securities. In country banks such securities are seldom received. The personal responsibility of the borrowers or of their endorsers is more usually the thing to be considered.

The routine of bank work varies according to the volume of business transacted. The methods employed in a bank where the average balances due depositors reach half a million dollars would, in a bank where such balances did not exceed one hundred or two hundred thousand dollars, prove cumbersome and complicated. On the other hand, a system which meets every requirement in the medium-size institution would, if introduced in the large city bank, be found wholly inadequate. The clerical force of a bank, too, has much to do with the method that may be introduced to the best advantage. In the larger city banks it is not unusual to see employed as the clerical force twenty to forty persons. Many banks in small cities and towns find that two or three persons will do the work comfortably. We could name many banks of respectable size where the average deposits reach one hundred thousand to two hundred thousand dollars, in which not more than two clerks are employed, and some where one clerk and the cashier get through with the work. The cashier in such case is also paying teller, receiving teller, discount clerk, note teller, and general bookkeeper. The work is often divided up between the two or three persons without any special reference to the functions of individual members in a fully organized force.

The books used in a country bank do not differ materially in number or formular arrangement from those used in metropolitan places. The following are those in most common use: General ledger, general journal, deposit journal or teller's cash, deposit ledger, sometimes called individual ledger and sometimes customers' ledger, collection register, discount register, tickler, sometimes two ticklers, foreign and domestic; certificate of deposit register, draft register, deposit ledger balance book, or as some term it depositors' balance ledger, and offering book, the latter being sometimes dispensed with. Then there are also used in some banks a discount ledger and daily general balance book. A monthly statement book is kept by National and also by many private or State banks.

An experienced country bank bookkeeper gives the following description of his daily routine:

"I enter in the journal all remittances in detail; total amount of loans and notes discounted each day, the latter I get from the discount register; notes and loans paid, which come from the tickler, these being entered separately in the journal with the total only extended into the money column. Collections paid, if belonging to our correspondents, go in the journal; if they do not belong to correspondents, they are remitted for direct; the draft register, in these transactions, completes the entry which opens in the collection register. Drafts drawn on our correspondents are journalized and other transactions such as exchange, interest, expense, etc. In closing the journal for the day, the footings of the deposit journal, which with us are the total amount of checks paid and the total amount of deposits received

are entered. In one respect my journal represents a cash book. I bring forward each day the balance of cash on hand. This enables me to prove my cash by my journal by balancing it the same as a cash book. The journalizing is done at the close of banking hours and the entries are posted to the ledger during the first hours of the next day. As the posting is done, the new balances are entered in the daily balance book which is lying conveniently on the desk. Opposite the accounts not affected the previous day's balances are extended. When the posting is finished the daily balance book is footed, which furnishes a proof of the work.

"On the debit side of the deposit journal appear all checks and certificates of deposit paid; on the credit side are deposits received and certificates of deposit issued. The footings only of this book are journalized. The footings are made direct to the depositors' ledger. The account in the general ledger of "deposits" is charged and credited from the journal.

"Our ledgers are provided with balance columns, the general ledger having one account to a page, the deposit ledger two. In the general ledger there are four money columns, two for items and two for balances. In the deposit ledger there are but three columns, Dr., Cr., and balance. In the balance column over-drafts are distinguished from credit balances by being entered in red ink.

"We use only one collection register. It is made to serve a double purpose, viz.: It is a record of bills, etc., brought in by our customers to be sent out for collection, and also of collections received from our correspondents and others, excepting sight drafts. After the record is made in the collection register, it is entered in the tickler under the day on which it falls due. When the collection is paid we make the proper notation in the tickler and either credit our correspondent or remit direct to the sender according to directions. In case the collection is not paid and is protested, immediate notice is given. Of sight drafts received for collection we make no book record. The letter accompanying the collection is the original and only entry we have. After presenting the draft for payment we note on the accompanying letter how it was disposed of—whether paid or returned. If paid and belonging to a correspondent it is properly credited. If it does not come from a correspondent we remit for it immediately, so noting on the letter. The letter is then filed as a history of the transaction. Our letter-copying book furnishes a history of all collections passing through our hands."

The cashier of a well regulated and carefully managed country bank says:

"Three persons do all the work in our bank. The president attends to the correspondence and takes charge of the loans and discounts. I perform the work of paying and receiving tellers and general bookkeeper, besides the ordinary duties of cashier. An assistant

keeps the customer's ledger and helps me in some of the details about the other books. Our loans and discounts range from one hundred and fifty thousand to two hundred thousand dollars. The depositors' balances are in the aggregate usually not far from the loans and discounts. We hold readily convertible stocks and bonds to the amount of forty thousand to sixty thousand dollars. Our capital is two hundred thousand and circulation one hundred and sixty-two thousand. Cash on hand seldom gets below twenty thousand dollars, and our surplus is fifty thousand. The net profits enable us to pay the stockholders seven per cent., and we generally carry two or three per cent. to the surplus. A dull season occasionally cuts our dividends down to half the usual amount. We have run so close that no dividends were declared for a year.

"My aim in the routine work is to avoid all unnecessary labor. I use as few books as possible. A few years ago I thought a huge journal was indispensable, but I have so systematized the work that I now have no use for it. In fact I have not used a journal at all for more than a year. The bookkeeping is done in such a manner that I can make up a verified statement of our condition within an hour any day after we close. Besides the general ledger I keep only the ordinary balance ledger for depositors' accounts. In this I also keep the accounts of banks and bankers. The accounts in the balance ledger are arranged alphabetically, and this book is kept so closely posted that the last check paid and last deposit made are entered up within a few minutes after the bank is closed for the day. We have only a few depositors who draw more than four or five checks in a day on an average. For these special cases I provide by giving their account a double space in the balance ledger. In posting the checks and deposits my assistant makes his entry direct from the checks and deposit slips. As the entry is made he marks the page by leaving projecting at the top of the book a narrow strip of colored paper. This enables him to turn at once to the pages on which changes have been made during the day. These pages are footed, and the footings compared with the columns in my cash book, headed 'depositors' debits' and 'depositors' credits.' The comparison furnishes a proof that all checks and deposits for the day have been posted. An additional test comes when the balances of all the accounts are extended for the next day and the footings compared with the general ledger account of 'depositors' after the totals of the various books have been posted. I do not enter in my cash the names, but merely the amounts of debits and credits belonging to the depositors' accounts. After the work has been proven I take the balance ledger and have my assistant read over the checks and I compare his postings to satisfy myself that the postings are all properly made. When this is done I run over the general ledger, the postings to that having been made, and carry the balances to the daily balance sheet. This proves the entire work of the day."

PART II.

SAVINGS BANKS.

CHAPTER I.

UTILITY OF SAVINGS BANKS.

This class differs from State or National banks in that they have no special capital owned by a few or by many individuals, but their capital is the deposited money of a great many saving people. They are mutual. That is, every one who puts money in is practically an owner in the bank, and the profit made by the bank, after paying taxes and expenses, and putting aside a proper reserve, is paid to the parties whose money earns the profit. The people, in their dimes and dollars and tens and hundreds, own the Savings banks. Hence it is that these institutions are very rigorously guarded by the laws of our States. It is not the idea of a Savings bank to pay a large percentage of interest. Safety is the first thing, and in order to be safe, only choice and high priced investments can be purchased by the managers.

Savings banks are voluntary trusteeships, undertaken by a few persons in a particular locality, either self-appointed, renewing their own number as vacancies occur, or chosen by the depositors. The corporate body thus formed receives deposits or funds, small in amount, and from the poorer classes of society. It undertakes to invest them with due diligence in the safest practicable way, and to divide all the income, after paying necessary expenses, among the depositors, at stated and convenient times. None of the profit on these investments belongs to the corporation itself. All of it belongs to the depositors. If a surplus is created, it is only for a safeguard against occasional losses or emergencies. In every respect, the corporation is nothing but the agent or trustee of the whole body of depositors, and works for their account and benefit, not for its own.

"The principal reason for the creation of a Savings bank is to offer to the poor and to those of small incomes a means of keeping safe their occasional savings. A secondary reason is to enable such persons, by combining these small sums, to invest them, so as to earn some interest. Such persons do not ordinarily draw out their deposits, except on an emergency. The deposits are made to meet emergencies in the private life of the depositors, and are not subject

to the daily calls of business. It thus appears that, as such emergencies usually result from sickness or lack of employment, the drafts will be gradual, not sudden, and are not subject to sudden increase by reason of commercial revulsions, unless in the exceptional case of panic. Large deposits, which do not come from savings, but which are the capital of persons who have acquired wealth, should be rejected.* They can invest their own funds, and they are likely to withdraw their deposits suddenly and in large sums."

Some one has said that they are meant "to help men to help themselves." It is not ordinary human nature to save and put by a store for the ever possible rainy day. The savage and the child live in reckless improvidence. Some one must take care of the improvident, as society is organized now in the enlightened nations. There are saving people and spending people. There are people who create property and people who waste it.

By and by the spendthrift has run his life, and comes in poverty and need to his brother and asks for support. Misfortune may follow the prudent and bring them, by unexpected reverses, to want. In the artificial conditions which our civilization creates, the demands of the needy are greater than they were in primitive conditions of living. Such demands as these meet the intensely practical mind today, just as they do that of the philanthropic. So they did a hundred years ago.

When a great want is felt in the world men begin to try to solve the problem to satisfy the want. This question of dealing with simple men and women, of taking care of the humble who had no estates, of taking care of the poor who come to want by improvidence or by misfortune, appears to have received the studious notice of the economist and philanthropist at the same time. While Jeremy Bentham and Malthus enforced the benefits of providence and savings in the interests of the great body of the people as well as of those who saved, about the opening of this century an English clergyman and a Scotch

*"Certainly, the use of these institutions should be confined to the class for whose benefit they were devised, and only that class who have not the time, opportunity, or ability to investigate and determine for themselves a proper investment or adequate means to enable them to pay for the information through private sources, should be permitted to become depositors.

In case of temporary embarrassment, the largest deposits, those belonging to what may be properly termed a capitalist class, would be soonest withdrawn, and whenever private investment promises better returns these funds leave the banks. Whenever money is cheap and hard to place, this class solves the difficulties of investment by placing their moneys in our Savings banks. Instead of supporting the banks, they make of them a convenience, and prey upon their resources; instead of being an element of strength, they are a constant menace.

Most States recognize this principle, and have fixed limitations designed to exclude this class of depositors. Instance: Connecticut lim-

minister, each in his own parish, set in operation a plan for his parishioners to save money, which embodies in substance the fundamental principle of the savings institution. Contemporaneously, a woman, Mrs. Priscilla Wakefield, established such an organization in England. Similar ideas also were advanced at the same period by a London magistrate, Patrick Colquhoun, who wrote upon the question of popular indigence and measures for its relief as early as 1806.

In America, in 1816 and 1817, the needs and the claims of the poor awakened attention at Boston and New York, and thought was immediately directed towards the savings institution, because it was deemed most helpful. At Boston, in 1816, it was proposed "to form an institution for the security and improvement of the savings of persons in humble life until required by their wants and desires."

The first Savings bank in the State of New York was the direct result of a meeting of citizens at the New York Hospital on December 16, 1817, to take into consideration the subject of pauperism. A society was there formed for the prevention of pauperism. A committee was then appointed to report on the prevailing causes of poverty. The report recites, among other causes, that "Prodigality is comparative among the poor; it prevails to a great extent in inattention to those small but frequent savings when labor is plentiful which may go to meet privation in unfavorable seasons." When the constitution of this society was drafted it declared that one prime purpose of the organization should be "to hold out inducements to those people to economy and savings from the fruits of their own industry in seasons of great abundance." The earnestness of the men who were members of this organization is proved in the passage of an act, upon their petition, by the Legislature of 1819, for the incorporation of the Bank for Savings. In each of the two years thereafter a Savings bank was incorporated in that State. The Philadelphia Savings Fund Society was incorporated in February, 1819.

Second.—The savings institution is not organized to make money. It is, therefore, wholly different from the discount bank in motive and aim. The Savings bank receives money chiefly to keep it securely

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its amounts receivable in any one year from a single individual to $1,000. Vermont limits the aggregate to $2,000. New York limits the aggregate to $3,000. Massachusetts limits deposits to $1,000 from each individual, and allows it, by accumulation of interest, to reach $1,600, but allows no dividend upon any sum exceeding $1,600. Each of these States makes varying exceptions as to trust funds, etc.

Recently, while examining a discount bank, I found twelve pass books from several different banks, and in four different names, but all belonging to the same individual, calling for sums aggregating $28,000, put up as collaterals for a loan. While this shows that any law is liable to evasion, it emphasizes the necessity for specific regulations as to the reception of deposits.—Extract from address of A. B. Hepburn, Bank Superintendent of New York, at the American Bankers' Association in 1882.

for the benefit of the depositors. The ordinary bank performs some service for such as need it in business, and justly is paid for such service. The aim of the bank is profit—gain upon the capital which is employed in the work. The savings institution seeks to serve those who are not fitted by knowledge and habit for safely keeping and investing their money when saved. The discount bank is equipped with money, with skill in business, with acquaintance with monetary affairs, and offers to the busy managers of commerce and trade its aid in making exchanges and in all their operations which require its assistance. The savings bank opens its doors to savers; it receives and permanently invests money. The bank opens its doors to borrowers and users of money, for pay. One serves by receiving and keeping, the other serves by lending. One aims at profit, the other never makes profit an end; the Savings institution is a receiving reservoir from little springs; the bank is a distributing reservoir of accumulated capital.

There ought to be, therefore, no antagonism between the Savings bank and the bank. If the Savings bank is kept to its original idea, as it should be, it will not encroach on the domain of the bank, and the last will by no means come in conflict with the Savings bank. The time has been when men had the idea that the best way to get on in the world was to rob each other. Juster ideas than that now prevail. The Savings institution is a conception which demonstrates this truth. It is the reverse of the communistic notion recently prevalent. The communist proposes the division of capital, the drone to share with the worker in the accumulation of his production. The Savings institution aims at making all men producers and savers, too. It offers the aid of the strong, who can manage well, to the weak, to receive their small gains and hold them securely against that time when need or desire may require the store for prudent use. The Savings institution enlarges the number of capitalists; it reduces the army of possible prodigals, paupers and tramps. The communist is the enemy of capital, for he proposes to rob the man who has money. The Savings bank depositor is himself an owner of money. He belongs to the conservatives by the logical tendency of his position. In this land, where there is such room for growth, such demand for money, such room for men of the right stamp, the Savings institution is an educator, is the friend of capital, of order and stability, both political and social. Whoever earns and saves, lengthens continuously his arms for service. Whoever earns and spends as he goes does not lengthen his arms, but shortens his legs for running his race in life. While the Savings bank is not organized to make money it is most profitable in several ways. It accumulates money; it inspires and trains men to get money and to the wise use of it; it spares those who have capital from charges upon it for the support of those who might otherwise become poor; it makes better men and families and better citizens; it adds to the sum of National resources in money, and adds to the means for advancement in material improvement. It is thus a many-sided benefaction—to those out of it, as well as to those in it.

Third.—The Savings institution does not hoard money.

This is an obvious fallacy. If the depositors in such institutions were to save an amount of money as large as they deposit, a great part of it would be hoarded. All who have acquaintance with Savings banks know this. If a panic comes upon the depositors in one institution, or in several, and money is drawn in large sums, much of it is hoarded and much of it is squandered. After the fright is over the identical money that was withdrawn and kept is often returned for deposit months after withdrawal. This demonstration of the disposition of saving men to hoard is always made under these conditions. The Savings bank encourages the habit of saving. Many of you, I have no doubt, were born and bred as boys on farms. You may still recollect the eager hunt for hens' nests in the hay mows, bays and scaffolds of the old weather-stained barns; you will recollect, too, perhaps, that the nests require the invitation of a "nest egg" to coax the fecund fowl to make her diurnal deposit in it. I think that men need such solicitation, too. The man who is profligate while he has nothing to "lay to," will often become stingily saving when he has a "nest egg" to win him from other temptations. Those who can do this, and would otherwise lay their gains in stockings, prefer the Savings bank, for money there makes money, which this class of men are quick to see.

The Savings bank invests its money. Its managers are, in theory, intelligent men, competent to make safe investments in solid securities. The genuine Savings bank is conservative, and does not encourage speculation, ballooning, and fanure with disaster. It puts money into circulation, and does not withhold it. It adds substantially to the sum of active capital in the country, which is not less useful because it is permanently invested. These little savings, when gathered into masses and discreetly invested, serve great purposes. As the tiny streams which trickle from hidden springs upon remote hillsides flow together and make the willing power to turn mill wheels, or to furnish the water for the thirsty people of a great city, so these savings of humble people and of small owners, when aggregated, become available to build the mills, or to buy the wheels for the mills, or to lay the pipes to convey the water to the thirsty town, or to help the thrifty saver to rear his own house, or to aid the State itself when its financial burdens are too great to be discharged at once.

Fourth.—The Savings bank is one of the best safeguards of property.

Depositors in Savings banks are arrayed as a solid phalanx against communism, rioting and disorder. The facts are too significant to be disregarded by intelligent men. Ireland, Germany and Russia to-day should admonish the American citizen, who has property, and who is a leader in business and in politics, that security and progress will be found in the diffusion of property among the great body of people, by

training them to its acquisition and maintenance. The Savings bank is a fortress which resists the dangerous classes. It is garrisoned by men who stand actually for their altars and their fires on their own hearthstones.

In 1820 the number of savings bank depositors in the United States was 8,635, and the savings amounted to $1,138,576. From this time forward the system rapidly developed until in 1897 the depositors numbered 5,201,132, with deposits amounting to $1,939,376,035. For every depositor in 1820 there were 604 in 1897; the amount of deposits was 1,700 times greater in the former than in the latter years, and the average deposit, which was $131.80 in 1820, was $372.88 in 1897. The fact that the average deposit has not increased so fast in the past twenty-five years has been due to the gigantic growth of building and loan associations, which have also absorbed a vast amount of the savings of industry and thrift.

The number of Savings banks depositors in the world is 45,796,767, with deposits amounting to the colossal sum of $6,604,546,473—an average of $144.21. While the amount of deposits in the United States much exceeds that in any other country, the number of depositors in some countries is far greater than in this. In the number of depositors of small savings economical France stands at the head of the list, with 8,986,631, having deposits amounting to $829,783,735. The United Kingdom comes next, with 7,969,826 depositors, having savings of $815,686,750; and Prussia follows closely, with 6,255,507 depositors, having $939,757,555 in the Savings banks. Though Prussia has fewer depositors than France and Great Britain, the amount of their savings is greater and the average deposit much larger.

The poorest depositor is the Hindu, with an average amount of $43.60 in the savings banks, while the richest is the Newfoundland fisherman, with an average deposit of $440.71. In Holland the rate of interest on money is so low as to tend to the discouragement of saving, and the average deposit of the Dutchman is $58.20. On the other hand, the frugal Dane has an average deposit of $166 in the savings bank. In Russia the development of this system of saving earnings is so slow that no data are given; but in Hungary the deposits average $227.19. Our neighbor of Canada has 175,560 depositors, with $57,578,975—an average of $328 in the banks; not much below the average in the United States, and very much above the average in France. A very large portion of these enormous savings of earnings is in gold, and nearly the entire amount is on the solid gold basis.*

*These facts are derived from a statement of the United States Treasury Bureau of Statistics, September, 1898.

CHAPTER II.

JANITOR.

In order to give the reader as clear an idea as possible of the interior workings of the modern Savings bank, we will describe the functions and the daily routine of each person connected with one of these institutions. We will begin with the janitor.

Since seven o'clock, when he relieved the night watchman, this humble, but important functionary has been preparing the bank for the business of the day. He has swept and dusted the banking room, seen that the ink, pens and other appliances were provided, and has stamped with the proper date the books and documents representing the business of the previous day. The tickets, when made out by the clerks, are purposely left undated; when made out by the depositors there are sometimes errors or discrepancies in the date, therefore this stamping gives the official date of their passing through the books.

At the opening of the bank at nine o'clock, the next duty of the janitor will be to arrange the many account books in their proper places for the business of the day. During the active business hours he sees that persons wishing to do business are directed to the proper department of the bank, he attends to any calls or messages between those departments or outside of the bank, he carries the deposits to the deposit banks, he copies letters or places them in the files, sees that the doors are opened and closed at the proper hours. These hours are from ten to three daily, but on Mondays and Saturdays the closing hour is seven p. m.*

Between nine and half past the members of the executive staff of the bank begin to arrive. The treasurer, the secretary, the paying teller, the receiving teller and the bookkeepers. The duties of these officials will be described in order, but first, we will consider the person for whose benefit and on whose behalf they are acting in every official transaction of the day, namely, the depositor.

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*In New York City. In Philadelphia Mondays and Thursdays—9 to 7.

CHAPTER II'.

THE DEPOSITOR.

As a convenient, though perhaps unfamiliar name, we will call our typical depositor John Smith. John Smith arrives at the bank soon after its opening on the day in question, having in his possession $1, which, contrary to the usual desires of mankind, he is anxious to part with. He proposes to relinquish the possession of this dollar for an indefinite time and to place it in the custody of the bank. Now, what are John Smith's motives in this eccentric conduct?

First.—He thinks that the dollar out of his hands will be less likely to be uselessly spent than in his hands, which is incontestable.

Second.—He thinks that the dollar out of his hands will be less likely to be lost or destroyed than if in his possession.

Third.—He believes that, aggregated with a great many thousand other dollars belonging to other depositors, this dollar of his will possess an earning power which, in his pocket, it would entirely lack. These homely thoughts of John Smith represent or convey the Savings banks' reason for existence. Their object is three-fold. To prevent waste, to prevent loss, to give profit.

Again, taking up the practical operations of John Smith's case we will suppose that this is his first attempt at saving. As he comes into the bank, if intelligent, he will look about him, and see a very plainly expressed printed notice, headed, "how to open an account." If unintelligent, or uneducated, he will probably apply to the janitor as a guide, philosopher and friend, who shall give him the necessary information for becoming a member of the numerous partnership, which owns the handsome building in which he stands, and all its contents. Following the directions of the notice referred to, he goes to one of the tables or desks on which are writing materials and all the necessary blank forms, takes a deposit ticket, which is printed on green paper to make it easily distinguishable, and writes,

First, the amount of his proposed investment; second, his name; third, his address, and lastly, the date.

It is not usual in Savings banks, in general, that the tickets, either for drawing or depositing, should be made out by the depositor. This bank finds it in every respect preferable so to do. The average style of writing is better than would probably be the case if made out by

a clerk working rapidly, because each depositor naturally takes pains with his own ticket. There is the further great advantage that we have his evidence as to the amount and circumstances in case of future dispute. It is too much the practice in Savings banks to assume that the depositor is uneducated and ignorant. The writer once mentioned this idea of tickets made out by the depositors themselves in the largest of our Savings banks, and was answered, "well one out of every three of our depositors is unable to write." He inquired whether this proportion was obtained by actual count or by guess. On being informed that it was merely a guess he suggested that a count be made of a few pages of the signature book, and it was found that the proportion was one in nineteen; that is, eighteen able to write, to one who is obliged to make a cross. In our bank the proportion is about one to twenty. It is found also that the depositors, when once accustomed to this more dignified way of doing business, far prefer it. They feel as if they were treated with more respect, not as inferiors or subjects of charity and finally there is a great saving of time and error for the receiving teller.

☞Write the amount in plain figures; dollars☞ above the word "Dollars," cents above the word "Cents."

$

DOLLARS.	CENTS.

UNION DIME SAVINGS INSTITUTION,

Deposit on Book No.....

Name on Book, ...

.....

Present Address..... Date .....

[Dec. '98, *428.]

	6	3	0
Lay bills straight in the book, facing one way. If you deposit checks or anything besides money, write particulars on the back of ticket. See if the entry is correct in the book.			

Received by..... Entered in pass-book by.....

This he carries to the window occupied by the receiving teller. He hands the ticket and the dollar to that official, and also names the amount aloud, "one dollar," or if English be not his native language, he is perfectly at liberty to say "ein thaler," "un dollard," "uno scudo," "un peso," or whatever equivalent expression in his own vernacular may signify his intent. Now the functions of the receiving teller begin, and Smith is only informed that he must next step to the signature desk. Here lies a large book on a revolving desk, and, like a guest in a hotel, he is requested to write his name and address, or if unable to write, his name is written for him, and he makes his mark, but instead of getting the number of his room, the number of his pass book is printed opposite the line on which he writes. The clerk, whom

he now sees, obtains from him, besides his name and address, the following information: Where do you live? What is your age? Are you married, single or a widower? Are you colored? What is, or was, your father's name? Mother's name? Wife's name? Occupation? Where from?

The particular points of information obtained from the depositor vary in different banks. The place of nativity is taken by some, and this would seem an excellent test of identity. The color of the eye, as being the one bodily characteristic which is unchangeable, is also taken by some institutions. Perhaps in the future photography may come to our aid, and instantaneous photographs of small size be taken on the occasion of the first deposit.

The entries in the signature book having been made, the clerk again asks Mr. Smith "how much money did you deposit?" and on being answered correctly hands him the pass book.

This pass book has stamped upon it, both on the outside and inside, the same number which stands opposite the depositor's name in the signature book, and this number will hereafter be the key to all the dealings of Mr. Smith with the bank. It is written on the deposit ticket, it is written opposite the first entry in the books of the bank, it stands at the head of his ledger account. (Page 273.) These consecutive numbers are printed wherever they possibly can be, to avoid mistakes, but as Smith will very probably forget the number of his book, especially if he is a careless person and loses the book, it is necessary somewhere to be able to find him by name. Therefore, the signature clerk has one more duty to perform in connection with Smith's account. Lying opposite him is a pile of cards about one inch by three. On the top one of these, which contains Smith's number, the signature clerk writes very plainly John Smith. This, as will be seen afterwards, serves as an entry in the alphabetical index.

When next Mr. Smith has any sum of money to deposit, he will make out and sign his deposit ticket as before, except that he now knows the number of his book, and will insert that in the proper place. Perhaps he will find several other customers awaiting their turn at the receiving teller's window. In this case, he must fall in at end of the line in proper order. But Smith will not go on depositing forever. His deposit of savings has only half performed its mission while it is lying in bank. Ultimately it is to be used. When Smith has become sufficient of a capitalist to invest his money at his own discretion, then he will wish to withdraw his accumulations. But frequently before that time he wearies of well doing, or he miscalculates the amount which he can spare from his current expenditure, and it is necessary for him to withdraw a portion, or the whole; or this necessity may be caused by removal, by calamity, by sickness, or by death. In this case he finds his way to the paying teller's window, having first filled out a ticket of another form, the draft ticket. This he presents, and again names the sum to be withdrawn. After proper

scrutiny, which will be described under the paying teller's duties, his book is handed to him again, and between its leaves, instead of the draft ticket, is the money desired. If this exhausts his account, the form called a closing draft is used. In this case, the pass-book is surrendered, and is filed away according to its numerical order. But, if Mr. Smith continues his deposits for a sufficient length of time, he will be entitled to his share of the earnings. Any amount over $5, participates in the profits of the concern. It is considered that the use of any sum less than that does not more than pay for stationery and labor. Semi-annually, a few days after the first of January, and a few days after the first of July, the book may be presented for the purpose of entering therein the dividends to which he is entitled. In the major-

☞ Write in this corner the amount received, in plain figures; dollars above the word "Dollars," cents above the word "Cents." ☜ $

	Dollars.	Cents.

We cannot pay without the Book.

NEW YORK ....

The Number is on the cover of the Book.

Received from the

UNION DIME SAVINGS INSTITUTION, on Book No.....

Write here the Amount very plainly in WORDS.

.... Dollars.

[Nov. '98, *421.]

Signature..... ....

Always sign as you did at first.

Individually or as Trustee, as the book reads.

Present Address, ...

6 3 0

Previous Balance $ | Paid by | Entered by | Sig. exd. by

ity of cases, Smith takes it for granted that the calculation of this dividend is correct, though occasionally, he scrutinizes it very carefully.

The conditions of this dividend in many institutions, are these:— Deposits begin to participate in the dividend on the first day of each quarter, but they only are entitled to it if they remain till the end of the half year; thus, money which is in bank on the first day of January, provided it remains until the first day of July, receives a half year's dividend, but if withdrawn, even during June, receives nothing. If in bank on the first of April, and remaining until the first of July untouched, it draws a quarter's dividend. Furthermore, the first few days of each quarter, may be allowed to the depositor as a sort of grace, the limit being 10 days, at the half year, and three days at the quarter.

The dividend is now usually spoken of as interest. As the rate in the State of New York is not promised in advance, but depends upon the profits of the half year, the term dividend, is considered more proper, but considering that it depends on the time, it is in that respect, strictly speaking, interest. The word interest-dividend would seem to be the most exact.

A few banks in New York allow interest to begin on the first day of each month, instead of the first day of each quarter, but with the same provision as to forfeiture in case of withdrawal before the end of the half year. In Pennsylvania, in some parts of New England, and in Great Britain, money bears interest for every full calendar month during which it has remained undisturbed, and is credited only once a year, unless the account is closed.

The current rate at present (1898) is wavering between four per cent. and three per cent. Ten years ago, the current rate for Savings deposits was six per cent., but the general investment rate has greatly lowered. Some banks make a distinction in rate for different amounts. For example, four per cent. on amounts not exceeding $1,000, and three per cent. on any excess over $1,000. Or on another plan, less than $500 receives four per cent., but if the whole deposit exceed $500, only three per cent. is paid on the whole. On this manifestly unjust plan, a depositor whose book has amounted to $501, receives absolutely less of the profits, than he whose aggregate is only $499. It would be better to preserve rigorously a limit as to the maximum which any depositor shall accumulate, or which he shall deposit in a given period, and then divide the profits pro rata, on all sums.

If interest is not withdrawn, it will itself draw interest as a deposit. The more ignorant depositors, however, frequently desire to draw their interest, even if they immediately re-deposit it, forfeiting thereby a quarter's interest on it. Their intellect in money matters has not yet been sufficiently developed for them to grasp the idea that there can be an increase of money value, without a visible amount or representative having touched their hands.

Besides the individual deposit which John Smith or Mary Smith may have made in their own names, there are various other forms. Frequently, money is deposited "John Smith, in trust for William Jones," or "John Smith, Trustee for William Jones." Often this trust is to some extent a fiction, the legal effect of which is that, upon the death of Smith, Jones will receive the deposit without the formalities and expense of administration. Frequently, also, it is intended as an evasion of that rule which makes a different rate of interest for higher sums. The thrifty John Smith will have the maximum amount in his own name, and scattered through the books of the bank you will again meet him as trustee for his wife, trustee for each of his children, trustee for his son-in-law, etc. Accounts may be opened in two names jointly, as John Smith or Mary Smith. Sometimes John Smith and Mary Smith. In the former case the book is marked "To be drawn by either signature. In the latter case, "To be drawn by both signatures only." The money of benevolent and other associations is frequently accepted by the Savings banks on deposit, generally with special regulations as to the officials who shall have control of the funds. A special signature book is provided for societies, in which is allowed, not a single line, but an entire page, so as to provide for changes in officers.

Smith occasionally loses his book, and it is then his duty to report it to a clerk in charge of that department. It is usually required that he advertise its loss for a certain number of times in one of the daily papers. The reason of this precaution is that he may have assigned his claim to the moneys in the book to an innocent holder, and

Form A,
Dec. '98. [428.]

Account No .....

SIGNATURE BLANK.

1. Sign your name as you usually write it, in the little space below, with ink:

Sign inside the space with ink.

I HEREBY SIGNIFY MY ASSENT TO THE REGULATIONS OF THE UNION DIME SAVINGS INSTITUTION.

.....

If a Trust account, add to your name, "in Trust for..... .... "

2. Now give the following particulars, for identification only:

Address..... ....

....

Age.....Occupation, if any,..... .....

Names of Parents: { even if not living. } ....

Name of Husband or Wife, if married: { even if not living. } ....

In a Trust account, the answers refer to the Trustee

3. Mail this as soon as possible, addressed thus:

UNION DIME SAVINGS INSTITUTION,
Broadway, 32d St. and Sixth Ave.,
New York, N. Y.

FORM OF SAVINGS BANK LEDGER ACCOUNT.

163,454. John Smith.

1884.		*Drafts.*	*Deposits and Interest.*	*Balance.*
January	10		10	
February	3		20	30
April	1	5		25
May	7		15 62	40 62

be thus endeavoring to obtain payment twice. If the book is not then returned he is required to execute a bond of indemnity, with a surety, making the bank good against any loss from adverse claims, and to make an affidavit as to the circumstances of the loss.

When Smith has gone over to the great majority of Smiths his legal representatives will ultimately appear at the bank, presenting letters testamentary, or letters of administration from the Surrogate of the county. Generally, upon these being admitted as correct, the money is transferred, without loss of interest, to a new book in the name of the executors or administrators, or paid to them in cash. Sometimes their names are simply added at the head of the original pass book, but in the bank which we are describing, it is a rule that no change in the heading of an account shall be made, except by transfer to a new book, lest unauthorized changes should be made, or alleged to have been made, by the employees. Such changes are sometimes desirable, for example, in case of a woman who has changed her name by marriage, but in this case she may continue to be recognized as a depositor by her former name.

The depositors of our bank are of all ages, occupations, religions, nationalities, colors and social grades, the children, from ten years upwards, are quite as exact and business-like in their transactions as their seniors, and the habit of carrying on a Savings bank account is quite prevalent among the children of all classes.

As the official with whom the depositor comes first and chiefly in contact, we will describe the duties of the receiving teller.

CHAPTER IV.

RECEIVING TELLER.

After the doors of the vault have been opened in the morning he takes out the large tin box containing his cash, and closed by his own combination lock. Placing the bills in the compartments of his drawer according to denominations, so as to be able to give change, if necessary, and arranging his tray of silver conveniently, he is ready for operation. As has already been said, the depositor hands in his pass book, between the leaves of which is the money, accompanied by a deposit ticket. The first duty of the teller is to count the money. To facilitate this, depositors are requested to have their bills neatly laid out facing in one direction, and the same denominations together. The teller usually counts the amount twice. He then sees that the amount as stated on the ticket is correct. He next sees that the depositor has correctly stated the number of the account; then he proceeds to make the entry in the pass book on the next vacant line, writing the date, the amount in words, and extending the amount in figures into the column headed "deposit." Then, with another glance at the ticket he sticks the latter on a spindle, and hands the book to the depositor, again repeating the amount.

This process is very brief, and detains the depositor less than any other, but in many banks it is thought that further entries should be made before the depositor leaves the bank. In many, a different clerk enters the amounts from the pass book into the deposit book, which will soon be described, and then hands out the book. In others, the pass book is taken direct to the ledger, and the amount posted there directly from it. The object of these precautions is, first, to insure accuracy, and, second, to check embezzlement on the part of the receiving teller. It is always more difficult to prevent embezzlement on the part of the receiving agent than of a disbursing agent, because the latter is compelled to produce vouchers for all his expenditures, but unless guarded in some way the receiver may withhold or destroy the evidence of his having received. There are two classes of methods employed to prevent this in moneyed institutions; one is that which makes another employee cognizant of his doings; and another, that which makes that known to the public. It is manifest that there is no absolute security in the former method. If you multiply the number of

hands through which a transaction passes, you somewhat diminish the probability of fraud, but there is always the possibility of collusion; but collusion with the chance public, whose interests are directly opposite, is impossible. Therefore, the writer considers that the only security against embezzlement lies in making the acts of a receiving agent to some extent public, as the bell punch does on the horse-car lines.

In the particular bank which we have in mind a new mechanical device has been introduced which makes as nearly as possible an absolute check upon the accuracy and integrity of the receiving teller. The machine has been called "an electrical double-entry bookkeeper," for it debits the institution and credits the depositor, always making the debit and credit exactly equal. If the transaction is a deposit of $299.37 on account No. 204,793, the teller first touches the proper keys on a keyboard in front of the machine. Through openings in the body of the machine, certain figures then appear, so that the following is shown.

Amount.					Cts		No. of Account.					
$	*	2	9	9	3	7	2	0	4	7	9	3

The teller looks at this, and sees that it is correct; if any figure is wrong, he can at this stage restore it to zero and then strike the correct figure; no harm done. He next places the pass book in a clamp on a movable platen, (or, still better, he has placed it there already,) and punches the platen from him as far as it will go. That is all he has to do: electricity does the rest. Instantly the current seizes upon the mechanism, there is a hustle of levers, a revolution of wheels, a convulsion of mysterious parts and the double entry has been made. Three things have happened.

1. In the depositor's pass book legible and elegantly printed in permanent ink, instead of the usual hurried writing:

29 JAN 1898 REC'D $299.37

2. On a tape in the machine under lock and key is the entry,

$*299.37 204793

the latest one of the series begun at the opening of the day's business. This takes the place of the process of "writing up tickets," which formerly took several hours daily.

3. Looking into the top of the machine through a glass we see a register, or, totalizer, exhibiting many millions of dollars. When the wheels revolved and performed the two printings just mentioned, this register might have been seen to change so that its reading now

shows $299.37 more than before. Thus, if these were the figures before this deposit, representing the total received since the organization of the bank,

126,644,000.00

the present reading is

126,644,299.37

If from the total at the close of the day we subtract what it was at the beginning, it is manifest that we know what are the total receipts for the day, without any more trouble. It is also evident that every sum credited in the pass book of any depositor must infallibly have been printed also on the tape, and what is even more important has advanced the figures of the total register by exactly the same amount. Hence error or fraud through discrepancies between the pass book entry and the entries in the books of the bank are effectually prevented.

At the close of the day, the tape as far as printed upon is taken out of the machine, cut into lengths and pasted into a "Mark Twain" scrap book. The entries are thus available for tracing errors in the bookkeepers' work.

Only black ink is used or kept at the receiving teller's desk. The reason for this will be seen when speaking of the paying teller. It is the duty of the receiving teller to explain the regulations of the bank, and give all information to persons inquiring with reference to opening accounts; to explain the system of deposit tickets to those who are not acquainted with it, and, in case of illiterate persons, to assist them, or to perform it for them. As the first impressions of depositors will be formed from their intercourse with him, it is essential that he should be perfectly courteous and of even temper. He will frequently meet with depositors who will endeavor to defraud him—who will pass in $99, for example, and a ticket made out for $100, and when told of the error, will pull the other $1 bill out of his pockets, saying very innocently, "Is that so? I must have counted wrong," hoping that once in a thousand times the teller may make the same mistake.

The receiving teller should be an excellent judge of money, an accomplishment which is not so needful for the paying teller. In fact, although in business banks the paying teller is the higher officer, it would seem as though, in the Savings bank, the receiving teller's position were the most important. During the day the receiving teller may be called upon to supply funds to other departments of the bank. The paying teller regularly keeps his cash filled from that of the receiving teller. He draws this in even amounts, making requisition for so many thousand dollars in such denominations; therefore, when not otherwise occupied, the receiving teller should package up his bills with paper strips properly marked. An excellent rule for this is always to put 50 pieces in one package, so that a package of $2 bills

is known to contain $100, and a package of $5 bills $250, etc. If the receipts are largely exceeding the expenditures, or, as it is frequently expressed, "the bank is running ahead," the Treasurer may make requisition in a similar manner for a part of the receiving teller's funds to deposit in bank. Checks, drafts, money orders, and similar documents are by this bank freely taken on deposit and credited as cash, but with a particular mark which indicates the nature of the funds, and nothing is ever paid against such deposits until they have been actually collected. Some of the more conservative banks, probably from force of habit, rather than otherwise, refuse altogther to receive checks on deposit, but as the irresistible tendency of the age is to make all payments of any moment through the agency of banks, the rule will ultimately prevail that checks are prima facie cash. Towards the close of the business day, or whenever he has leisure, the receiving teller gets ready the tickets representing the transactions of the day, in order to have them written up in his book called the "Deposit Book," unless the double-entry machine is in use, in which case this work is saved. This book simply contains number of account and amount of deposit. (See page 273.) As we have remarked, it may very properly be written up from the pass books before they leave the bank, especially if the business is sufficiently voluminous to give the receiving teller an assistant who can attend to this and also to the signature book.

For convenience, the tickets are frequently assorted, proximately into numerical order, before writing them up. The only advantage in this is that it facilitates searching for error, if any, in the next day's "Bookkeeper's proof." There are, on the other hand, some advantages in entering the tickets in the exact order in which they were received, because, sometimes, in the case of dispute, this enables us to find the names of the depositors who were standing near at the time the questioned deposit was made, and also enables us to ascertain, proximately, the hour of the day when said transaction took place. The receiving teller is required, by an inflexible rule, to turn over to the Treasurer, before three o'clock, all checks, drafts, or other cash items, not actually money or currency, so that the cash balance carried over night by the teller is bona fide cash, and available for payments. The liberty of holding checks over night, or memoranda, in place of cash, may very easily lead to a fictitious balance covering a real shortage. The checks received are entered in a special book, which gives the name of the bank, the name of the maker, the name of the depositor from whom received, and the amount. Shortly before three o'clock the janitor goes to the desks of the various tellers, and asks them for their checks and check lists. He counts the items received from each one, and brings them, with their contents, to the Treasurer, who receipts in the margin of the check-list book. Now the day's work is over, and it is the teller's duty to "balance his cash." His deposit book is fully written up and footed. His transactions with

other departments of the bank have been noted by him as they occurred, and are vouched for by receipts taken and given. He therefore has all the elements of a balance, except the verification of the amount on hand. He counts, first, his packages of bills, assuming the contents of the packages in themselves to be correct; next his loose bills, and last his coin. He is now prepared to make up and prove his report to the Secretary. This contains three columns—"debits," "credits," and "cash on hand." (See form, page 284.)

In the debit column is entered, first, the amount in his hands at the beginning of the day; second the amount received from depositors, being the total of the deposit book. He also states, as a matter of statistics, the number of depositors, and also the number of accounts opened.

Then follow receipts from other sources, either from the treasurer or from the other tellers, but this is exceptional, for the receiving teller, as such, is constantly parting with his money inside of the bank, and has no occasion to receive from others. It might have been mentioned, that in our bank, more as a matter of convenience than otherwise, expense vouchers, unless paid by check, are paid by the receiving teller from his cash, after receiving the approval of the treasurer or secretary. It is considered that there is an economy of labor in thus relieving the receiving teller of part of his money, making so much less for the paying teller to recount.

On the credit side of the teller's report is, first, "amounts paid to depositors," but unless he has acted during the day as paying teller, the receiving teller will have nothing to record here. Next come amounts paid to the treasurer. This will embrace the checks turned over by him, the currency turned over to be deposited, expense vouchers paid on the approval of the treasurer or secretary. In the two former cases, he has a receipt on the margin of his check list. In the latter case, he holds the authorization on the voucher. Next come payments to other tellers. This is normally, of course, to the paying teller. The last item of credit, which is balance on hand, is not inserted until the cash has been counted. The results of the count are written in the last column under the heads "Packaged bills," "loose bills," "coin." Then the aggregate of these is placed opposite the words "actual cash on hand." Now this may not be the correct amount which should be on hand. If in excess, the cash is said to be "over," if deficient, it is said to be "short."

A line is provided for each of these contingencies, and if, after thorough search, the cash is "short," the amount of deficiency is entered on the proper line, and added to the actual cash on hand, the result being carried into the credit column, last line. If the cash be "over," the amount of excess is similarly entered, but subtracted. The amounts of the debit and credit columns should now be equal. This report, signed by the teller, is handed to the secretary, who extracts from it the information necessary for his books, which he will

hereafter test, and marks it "examined and entered, —— secretary," and places it on file. The teller begins his report for the following morning with the balance on hand, as corrected. During the following day, unless he succeeds in finding the error, he is required, in case of an "over," to charge himself by ticket, approved by the secretary, with the amount, placing it to the credit of an account called "excess account," from which it may ultimately be transferred to the credit of the rightful owner when ascertained. In case of a "short," he is charged in an account called his "deficiency account," and has ultimately to refund the amount to the bank.

Besides the daily report of all transactions, the teller makes a monthly report of his transactions with depositors alone, for more convenient examination by the auditing committee.

Form of Teller's Daily Report.

Union Savings Bank.—Second Teller's Repopt, March 1, 1884.

Dr.		*Cr.*	*Statement of Cash.*	
8,619 75	Balance brought forward		Packaged Bills	10,500
9,764 17	(134-16) Depositors (17-3)	826 13	Loose Bills.....	1,710
			Coin.....	269 72
100	Treasurer	179 07		
	Teller	5,000	Actual cash on hand	12,479 72
			Short.....	
			Over	1
	Balance carried forward.	12,478 72		12,478 72
18,483 92		18,483 92		

hereby certify that the above report is true and complete.	Examined and entered.	Cash on hand examined and found as stated.	
E. D. J.——	S.——		*Committee.*
Teller.	*Sec.*		

Form of Deposit Book or Draft Book.

Date.	*No.*	*Amount.*

CHAPTER V.

THE PAYING TELLER.

It has already been explained, in connection with the receiving teller, that the moneys received by him are the principal sources of supply to the paying teller, but if the payments at any particular time are running heavier than the receipts, recourse must be had to depository banks for funds. In this case requisition is made on the treasurer, who draws the amount from the nearest bank, and takes the paying teller's receipt on the stub of the check book. The bank accounts are drawn upon for payments to depositors, also, in another way. A depositor frequently prefers to receive his payment in a check on some commercial bank, rather than in money, thus lessening the risk of loss, and in many cases creating additional evidence of his transaction.

In this case the paying teller sends the depositor, after verifying his draft, to the secretary's window, and himself hands the draft to the secretary, who gives the check to the depositor. On the return of the draft, the paying teller receipts, as before, in the margin of the check book. Thus, the receipts of the paying teller are, first, from the receiving teller; second, from the treasurer in money drawn from the banks; and, thirdly, in checks which are immediately issued. His payments are almost exclusively to depositors. When, as has already been said, the depositor presents himself at his window with a request for a certain sum of money, the paying teller has to make the following inquiries:

First.—Is the pass book presented?

Second.—Is there sufficient money on the account to pay the draft? In order to ascertain this he requests the bookkeeper, by mentioning the number of the account, to inform him of the present balance, or, if there be sufficient time, examines it himself.

Third.—Is there a properly made out draft for the amount? If not, the teller usually makes it out himself. (See form, page 275.)

Fourth.—Is the signature genuine? To ascertain this, he turns to the signature book (the entire series being near him), and, finding the number of the account, compares the signature of the draft held in his hand with that originally written in the book. It is very frequently the case that there will be some slight disparity, far more frequently than in case of a commercial bank. The last withdrawal was perhaps

many years ago, and very naturally some change may have taken place in the character of the handwriting. Any substantial variation, such as writing initials instead of full names, or abbreviations instead of initials, he causes to be corrected by a re-writing of the name on the back, if the depositor is present in person. It is not his duty to refuse payment where the signature is not absolutely identical. He must, using the best of his judgment and discretion, form his opinion as to whether the signature is genuine. A by-law of the bank, which has been sustained as reasonable by the courts of the State, declares that any payment made to any person producing the genuine pass book shall be considered valid, and shall discharge the bank. A payment without the pass book is very exceptional, and is never made without the approval of one of the officers of the bank, noted on the draft itself. In this case, of course, a perfectly incontestable signature must be presented. In the case of persons who did not write, but made a mark on the opening of their account, the mark is now made in the presence of the teller, and the person is asked the various test questions which were asked at that time. If answered correctly, and the appearance of the person sufficiently answers the description, this, with the presentation of the pass book, is considered sufficient evidence to pay on.

In some of the older Savings banks the signature of the depositor, when coming in person to draw, is not taken. They rely, not on comparison of signatures, but on the asking of the so-called test questions. This seems to us a very improper way of transacting business, of which the only advantage has been, in past years, the saving of two cents for an internal revenue stamp, now abolished. The bank retains no voucher for the payment. It is perfectly easy, especially in our crowded tenement houses, for a person who has abstracted a pass book, to obtain such information as the names of parents, etc., and the writer has no doubt that many cases of fraud have occurred in this way, which even the depositors have not been aware of. The identification by questions should only be employed as a last resort, where comparison of signatures cannot be made.

Fifth.—To whom is the amount payable? Instead of coming in person, the depositor frequently gives his draft to another. The printed forms given by the bank read "pay to myself, or bearer," and in the forms given in the pass book, the word "bearer," is always recommended to be inserted. Occasionally, a draft is presented, payable to order. In this case, of course, identification is necessary, as in a business bank. The bank claims the right to decline any such draft, as it is no part of its business to verify endorsements, but frequently the difficulty is overcome by paying in check to the order of the payee named. Some drafts are presented through the medium of business banks, having been deposited for collection. These are also usually paid by check. The bank has the right, in case of a financial panic, or similar emergency, to demand sixty days' notice before making any

payments whatever. In this case, it is the duty of the paying teller to accept such written notices.

If the double entry machines are used, the one at the paying teller's desk is adjusted in such a way that the amount printed on the pass book as paid is further to the right than the amount received. For example, if the pass book already described on page — as containing a deposit of $299.37, on January 29, 1898, should be presented on Feb. 17, 1898, for a withdrawal of $148.52, the pass book would represent this appearance:

No. 204,793	Deposits	Drafts
29 Jan., 1898, Rec'd J	$*299.47	
17 Feb., 1898, Paid A		$*148.52

The entry on the tape is the same as already described for a receiving machine, but it is advantageous to use a different colored tape for payments and a separate scrap book for preserving them. If the machine is not used, the paying teller keeps a draft book, precisely corresponding to the deposit book already described. His daily report is precisely similar to that of the receiving teller, the footing of his draft book being entered as a credit, and the statistics of the number of drafts, and number of books closed, taking the place of number of deposits and number of accounts opened. When an account is closed, the pass book is always retained by the bank; therefore, at the close of the day, the paying teller should have a pass book for each account which has been closed, and his report of the number closed is made by counting these pass books. The following morning this account is verified by a report from the bookkeepers of the number of accounts actually ruled off on the ledger. In case of a lost book, an envelope, of the size of the pass book, and marked with the number, date, etc., is put in as a substitute or dummy. It is the paying teller's business to keep himself supplied with funds, and to give timely notice to the treasurer, or to the receiving teller, that they may have money ready for him in the morning hours when he has leisure to count it.

The Pass Book must be given up at the final payment. $.....
(Amount filled in by the Bank, not by the Depositor.)

NEW YORK, ...189..

Received the entire
from the UNION DIME SAVINGS INSTITUTION, amount of Book No.....

....

Signature .....
Individually or as Trustee, as the book reads.

Present Address 6 3 0

[July 98,*408] Paid by Entered by Sig. ex'd by

[This line is filled in at the Bank.] Amount sent..... Charges... cts. Total, $.....

Form E.
Dec.'98,*428.

....189

AFFIX TWO CENT INTERNAL REVENUE STAMP.

UNION DIME SAVINGS INSTITUTION:

I send you herewith Pass-book No ....
on which please send me ....Dollars
... .at my expense and risk, to the address below, in the manner following not stricken out: By Check to my order. By Registered Letter. By Money-Order. By Express. By ....

Signature..... ....
Individually or as Trustee, as the book reads.

Address..... .... 6 3 0

Sent by Entered by Sig. ex'd by

FORM OF TRANSFER TICKET.

UNION SAVINGS BANK.

TRANSFER. $ ....

from Account No.. .....

to No.....Account of .....

....

NEW YORK.....18.....

Signature..... .....

Present Address .....

.. ..

Sig. ex'd by Approved by Posted as Transfer.

TRANSFER.

$ ... .

to the credit of Account No .....

Name ....

..... from No.....

Date,

Interest from

Jan.
April
July
Oct.

Entered, Transfer B'k
Posted
as Transfer.....
6 3 0

CHAPTER VI.

THE BOOKKEEPER.

The bookkeeping department of the Savings bank has charge, solely, of the accounts with depositors. The general accounts of investments, incomes and expenditure, are a separate system under the direct charge of the secretary. The province of the bookkeeping department is to keep a classified record of the tellers' transactions, which shall, at any moment, indicate the standing of any given depositor with the bank and the balance to his credit, at the same time corroborating the accuracy of the teller's figures. The transactions with the depositor are: first, deposits; second, interest; third, drafts; fourth, transfers. The tickets already described as deposit tickets and draft tickets form the basis of all the bookkeeping operations. The transfer, which consists in withdrawing from one account and crediting the same sum to another, is effected by a double ticket. Half of this is of the size and form of a draft ticket, and the other half of that of a deposit ticket, and any clerk is authorized to make a transfer, being responsible for all the parts of it. He makes the entry in both pass books, writes up a description of the transaction in a third book, called the transfer book, giving the number of the account from which, the number of the account to which the transfer is made, and its amount, and also the date from which it bears interest. The double ticket is placed upon a special spindle kept near the transfer book. The bookkeeping work of one day is always done on the following day. The result of the day's business is an accumulation of tickets of the three kinds, as already described, and these are stamped with the official date and the initials of the respective tellers, the transfers being divided into their component parts. We then have two series, one of debits against depositors, and the other of credits in their favor. The first duty of the head bookkeeper is to take each series and to divide it according to the numbers belonging to the different ledgers. The ledgers of the bank contain 5,000 numbers each, in consecutive order, but when the majority of the accounts have been closed, several of these are consolidated and kept in one volume.

The ledgers are grouped in sections as many sections as there are bookkeepers. Suppose there are five bookkeepers and the ledgers are

numbered as high as 66, the first 48 having been consolidated. Then they are divided into five sections, so as to equalize the work as nearly as possible, e. g.:

FIRST SECTION. Ledgers AC, D, E, F, G, 49, 50, 51.

SECOND SECTION. Ledgers 52, 53, 54, 55, 56, 57.

THIRD SECTION. Ledgers 58, 59, 60, 61.

FOURTH SECTION. Ledgers 62, 63, 64.

FIFTH SECTION. Ledgers 65, 66.

No one bookkeeper has any section under his exclusive charge, but they rotate, so that if I post on the first section to-day, I do so on the second to-morrow, on the third day after to-morrow. The bookkeeper to whom falls the posting of the third section, embracing accounts numbered 290,001 to 310,000 inclusive, receives the tickets, debit and credit, belonging to accounts contained within those limits. He next makes a further arrangement, so as to bring them into exact numerical order, which greatly facilitates posting.* It may be briefly described as follows: The ledger consists of three columns besides the date: debits, credits and balance. After each transaction, and in the same line with it appears the resulting balance or amount to the credit of the depositor. The posting is done entirely from the tickets in the first instance, but only consists in rewriting the balance, plus the deposit, or minus the draft, as the case may be. Thus, if the bookkeeper has a deposit ticket on John Smith's account for $29 32
he turns to proper page of ledger, as indicated by the number on the ticket, and there he finds that the present balance is..... .... 270 44
Adding mentally, figure by figure, he writes on the next line.. 299 76
which is the new balance produced by the transaction. He also writes the date, but does not make any entry in the column devoted to deposits.

The "Ledger Test" is a book giving a transcript of all the posting day by day, made for convenience on loose sheets, which are finally bound up in a self-binder. To prepare these sheets, nothing is written except the number of the account and the name of the depositor.

Now comes the process of verification. Turning to Mr. Smith's account, the verifying bookkeeper (not the one who posted it) infers from the two balances that the transaction must have been a deposit of $29.32. He therefore writes that amount in the credit column of Smith's account, and copies the same into the credit column of the Journal. Now it is evident that if there were a mistake either in the amount of the entry, or in subtracting instead of adding, or in computing the balance, as changed, the aggregate of the entries on this ledger, and the aggregate of the entries of the entire day will be incorrect. This aggregate is carried to a book known as the Re-

*The process employed in posting is fully explained in an article, entitled "Balance Posting," in The Bookkeeper, No. 51.

capitulation Book. Opposite "Ledger 58, 59, 60 and 61," the bookkeeper enters the amounts posted to each side, as shown by the test sheet. When the daily proofs have been completed by filling up every line, their total is compared with the total aggregates derived from the teller's reports, and if there is any discrepancy, it indicates some error, either in the teller's accounts, or in the balancing of some depositor's account, or in the transaction on some depositor's account, or in addition, which must be traced and corrected.

A "Monthly Proof" is also made, which involves the total transactions for the month, and the aggregate balance of each ledger, being a summary trial balance.

Another feature is introduced which is not absolutely essential to the proof of posting, but is found very valuable. Instead of the Test Sheet containing merely two columns, Debits and Credits, it contains six columns, every transaction being placed in one of three columns, according to its effect on the interest for the current half year, which must be either for six months, three months, or no interest at all, or a mixture of these. By keeping these six columns running through the half year there results a perfect proof of the total dividend of interest, irrespective of the interest credited to each depositor.

We have described one of the most advanced methods for keeping accurate accounts with depositors, and one by which it would seem almost impossible that any error should escape detection. It involves two principles which seem to us vital in insuring accuracy. First, that where there is a great volume of work to be gone over, it should be cut up into such small portions, each separately proved, that the area of search for errors is narrowed. Second, that the process of verification should be totally different from the process verified. A familiar illustration of the latter principle is in the process of addition, where, having added upwards, we then add downwards, lest the same error occur in the same combination of figures.

We will now describe one of the primitive methods which are still in use in some institutions and which violate these principles. The ledger contains columns for drafts only and deposits, none for the balance. The posting is done, not from tickets but from the tellers' deposit and draft-books. The verification is merely a going over the items in the same order, affixing a check-mark if the original book and the ledger agree. There is no division of the transactions and balances of different ledgers or sections. The only thorough proof is in the semi-annual trial-balance, and it is an almost hopeless task to find an error in this, if there is a discrepancy, as usually happens. Experience has shown that this method neither prevents nor detects with certainty errors in posting.

To return to our advanced method. The interest, or dividend, is computed semi-annually, and its calculation devolves upon the bookkeepers, each for his own ledger. The calculations are gone through

twice. The first operation is entered in a book called "Interest and Balance Book, Ledger ——." This contains, on the left hand side, the numbers of all the open accounts in succession, followed by columns for the amount of interest at each half-yearly period, separated by other columns for the balance, which will hereafter be explained. The so-called "balance column" of the deposit ledgers, greatly facilitates the calculation of interest. Making the calculation mentally, figures are put down in the "Interest and Balance Book," opposite the principal, in pencil. When the ledger has been finished in this way, the "Interest and Balance Book" is laid aside entirely and the calculations again made, the result being noted in pencil on the margin of the account. Thus there are two independent calculations of dividend, and if, upon comparing these two they are found to be identical, it is assumed that the calculation is correct. As this work is commenced before the end of the interest period, there are changes during its progress, caused by the withdrawal of money. These are corrected each day. After the first of January, or of July, the amounts penciled on the margin are written with red ink in the body of the account, and the resulting balance carried out, also in red. The "Interest and Balance Book" is added up by pages and aggregated by ledgers, so as finally to show the total amount of the dividend. It is the duty of the bookkeeper to enter in the depositor's pass book, whenever required by him, all dividends standing to his credit up to date. This is also done in red ink, and it is the invariable rule to foot up and balance his pass book at that time, compare its balance with that shown by the ledger account, and check off the latter, if correct. The book is also similarly balanced whenever the page is full; thus the daily and monthly reports of the bookkeepers verify and control the daily and monthly reports of the tellers, the cash department and the accounting department each reporting to the secretary, who balances one against the other.

In connection with the signature book the index cards are described and exemplified. These are kept in a chest of drawers which will contain about 10,000. They are arranged in alphabetical order, the index cards of each day being inserted in their appropriate places, and the cards representing closed accounts being each day extracted and filed in a separate series, so that the regular series contains only the open current acccounts.

Many forms of index books have been and are used—simply alphabetical, alphabetical with vowel divisions, and alphabetized accord ing to the first three letters. In none of these can the arrangement ever remain absolutely alphabetical, and there is always a considerable space to be gone over to find a certain name, and a great chance of missing it. In the card method a certain name can occupy but one place, as in a directory, and the dead accounts do not have to be gone over in order to find the open ones.

Little zinc cards indicate the divisions between letters, and between combinations of letters, so as to facilitate search.

We have now considered the principal functions of all the clerks of the bank, and have next to describe the duties of its executive officers. These are, in the bank under consideration, the president, treasurer and secretary. The treasurer and secretary perform, to a certain extent, co-ordinate duties. That is, they assist each other, and relieve each other when absent. We will describe first the duties of and relieve each other when absent. We will describe the duties of the treasurer in the next chapter.

CHAPTER VII.

THE TREASURER.

This officer is elected by the board of trustees, and holds office at their pleasure. He may or may not be a member of the board, but it is customary that he should be. His department is the custody and management of the investments of the bank, but, as the senior officer present, he exercises a general direction over all departments. The cash deposited in banks is principally under his control. He, or the secretary acting for him, directs the deposits to be made in different banks. Checks on the banks are signed by him and by the secretary, and countersigned by the president. He is the proper officer to collect interest or rent due the institution, to receive payment for obligations which mature, to receive applications from borrowers, and to lay before the board of trustees all matters pertaining to investments which may require their action. The principal investments of the bank, as permitted by law, are—1st, loans on pledge of stocks; 2d, stock investments; 3d, mortgage loans.

The kinds and amount of these various classes of investments are guarded by law, which differs in the various States. In the New England States loans may be made upon bills receivable as security, which is not the case in this State. In some States loans may be made upon bank stocks or railroad stocks.

The first of these classes, loans on pledge of stocks, are considered as a temporary investment. The loan cannot exceed par, and there must also be a margin of ten per cent. These loans are made upon the sole discretion of the Treasurer, as it would be impracticable, in case of a loan from day to day, to await the action of the board at its monthly meeting. The borrower deposits the securities, the treasurer is responsible for seeing that they are genuine and that they are sufficient, and for their custody. He takes from the borrower a voucher, and also a note, which are at first embodied in one document, afterwards separated.

The raising and lowering of the rate on such loans is also at his discretion, and if the loan should not be paid, principal or interest, when due and demanded, it is his duty to sell the stocks pledged as collateral security, as prescribed in the note, and to account properly for

the proceeds. It is also his duty, in case of the depreciation of the security below the legal margin, to make a call for a sufficient part of the loan to bring it within the margin.

Second.—Stock investments. These are usually voted by the board, but the practical business of buying and selling is effected by the treasurer. The board usually authorizes a purchase at not exceeding a certain price, or a sale at not below a certain price, and it is the duty of the treasurer, of course, to obtain the most advantageous terms possible for the bank, and his contract, even if it should be contrary to the vote of the board, would bind the institution. These securities are frequently of the class known as coupon bonds, where each maturing amount of interest is represented by a small promissory note attached to the margin of the bond. These bonds and their coupons being payable to bearer, there is greater danger in case of theft than from registered securities. The treasurer is, therefore, usually instructed to convert any coupon bonds, which may be purchased, into registered. As an expert in the money market, the treasurer is expected to submit to the board at its meetings all desired information as to what appear to be the most profitable investments. When the interest on the stock investment matures, the treasurer attends to its collection through the regular channels, referring to the register of interest due, kept by the secretary.

The law of the State of New York permits Savings banks to invest only in the following stocks and bonds: 1, United States bonds, including District of Columbia 3.65's; 2, New York State bonds; 3, bonds of any State in the Union which has not during ten previous years defaulted on principal or interest; 4, bonds (if issued in pursuance of a State law) of any city, county, town or village in the State; 5, any interest-bearing obligations of the city or county in which the bank is situated; 6, bonds of certain named cities in other States under restrictions; 7, bonds of railroads in this State, also under special restrictions. In loaning on collateral security, the banks are restricted to the first five classes of bonds.

Third.—Mortgages. A person desiring to borrow from the bank upon his mortgage on real estate, fills out the application which contains spaces for a full description of the property and other information concerning the proposed loan. This is, in the first instance, investigated by the treasurer, and in a great many cases declined by him at once. He is understood, by custom, to have a veto upon such applications as seem out of the question. If the loan appears advantageous, and within the limits prescribed by law, the treasurer submits it, with others, in a list at the next meeting of the board; a printed copy of the list, giving a brief description of the security in each case, being laid before each member. If the loan is accepted, and the application forwarded to the attorney to whom the applicant is then referred, and the title is, by the latter pronounced good, the treasurer draws the bank's check in favor of the attorney for the

amount of the loan. He will receive from the attorney the application, with the receipt of the borrower endorsed thereon. Also the bond, the insurance policy, the mortgage, when it has returned from the office of public record, and the abstract of title when it has been copied. It is his duty to examine each of these documents, to see that the correct amount has been paid upon the voucher, to see that the bond is in accordance with the vote of the board, that the insurance policy is in one of the companies selected by the bank, and made payable to the bank as mortgagee, that the mortgage describes the property correctly, and that the abstract is properly certified to by the attorney. He furthermore sees that the documents are appropriately filed under the serial number of the mortgage.

All the documents, except the application and abstract, are kept in a single envelope, headed with the number of the loan, and they retain this number so long as they are the property of the bank. The application is filed as a cash voucher, and the abstracts, which are somewhat bulky, are kept in a separate series. Semi-annually, on the first days of May and November, it is the duty of the treasurer to collect from the mortgagors the interest on their mortgages. He sends to each mortgagor, about twenty days previous to those dates, a statement of the amount of interest due, the computations for which are made and verified by the secretary. This statement is so arranged as to constitute, when signed and returned by the mortgagor, a letter of transmission accompanying the payment to the treasurer. These statements are required to be signed, even when the party pays in person, as evidence of the correctness of the amount paid. In return, the treasurer gives a receipt. In the majority of cases the payment of interest on mortgages is made by check on some bank in favor of the institution. If it is made in money, a statement is handed with the money to one of the tellers, who receipts therefor by writing his initials after the words "Received by," and returns the statement. (See form, page 273.)

The secretary debits the teller and credits the treasurer. It is the theory of the bank that every document representing the payment of money in either direction should be doubly signed, by the party or bank official giving, and also by the one receiving it.

Interest on loans, it might have been stated, is collected in a precisely similar manner. If a mortgage becomes in default of interest or principal, it is the duty of the treasurer, after applying all other means, to place the mortgage in the hands of the attorney for foreclosure, and upon the conclusion of the action, to collect and account for the proceeds. He also receives money in partial payment of mortgages, usually where the same are overdue, and running by mutual consent. In this case, he requires a statement of the general form, and gives a receipt.

Besides these classes of regular current investments, the bank may, in certain cases, invest in real estate. These cases are the following:

1st. A building for its own use; but, as it would be unprofitable to confine the building to the single story required for bank use, it is allowed to add portions thereto for the purpose of deriving revenue from renting. 2d. Where mortgages are foreclosed, it is frequently necessary for the bank to bid at the sale in order to protect itself, and in this manner it may become the buyer. When the fee of a piece of real estate has been thus acquired by the institution, it then becomes the duty of the treasurer to act as the bank's agent in managing the property, to sell it whenever that can advantageously be done, and to derive the best possible revenue from it, so long as it is held. The collection of rents, both from the rented portions of the bank's premises, and from foreclosed real estate, is effected in a manner analogous to the collection of interest. A statement is sent out as a notice, returned as a voucher, and exchanged for a receipt. As to the sale of real estate held by the bank, the board usually instructs the treasurer as to a limit, above which he is authorized to dispose of it. When a bargain is made, he and the purchaser sign in duplicate a contract of sale, and the amount paid in hand at the signing of this contract is considered as a liability, and credited to the account "contract of sale."

The expenditures of the institution are under the supervision of the treasurer. In every case, whether the payment be as an investment, or as the expense of managing any of its departments, he takes from the payee a voucher, and if the actual payment is made by a teller, it is countersigned by the latter. (See form below.)

EXPENSE VOUCHER.

Voucher No..... [July '91.]

For payment by the UNION DIME SAVINGS INSTITUTION OF NEW YORK, TO

Date	Consideration.	Amounts.	Totals.

Approved for payment ..... Teller

Paid in Money, ... Check No.....

Examined by Auditing Committee, ...

RECEIVED ON..... 188

from the UNION DIME SAVINGS INST'N .... Dollars,

in full payment, as above stated.

....

....

Voucher No..... ..... [Feb. '93.]

For Payment by the UNION DIME SAVINGS INSTITUTION, OF NEW YORK, TO

.....

for purchase of the following stocks, bonds, or interest-bearing obligations of the

..... of .....

Descriptive Name, ...

	Registered	Coupon
Par.....Payable..... ....Nos.....Price.....		
$.	$	
Interest at.....%. Payable.....		
Accrued Interest from.....,.....days.....		

Approved for payment

.....

Check No. ....

Examined by Auditing Committee.

.....

RECEIVED ON..... from the UNION DIME SAVINGS INSTITUTION,.....Thousand ..... Hundred and .....Dollars 100

In full payment, as above stated.

....

....

CHAPTER VIII.

THE SECRETARY.

The secretary is supposed to be the accounting officer of the bank. It is his duty to know, from its books and records, the state of the institution in every department, at any time. In practice, he performs a large share of the duties just described as belonging properly to the treasurer, he being constituted by the by-laws, a vice-treasurer; but his duties will be described as they exist in theory, for the secretary alone. His duties may be divided into three branches: as correspondent of the bank, as recorder of the board of trustees, and as accountant of the bank. All letters should be received by him, and answered by him, either immediately, or upon reference to the appropriate department. It is the rule of the bank that every letter received, however unimportant, be filed in its alphabetical place, and that every letter sent, however apparently unimportant, be copied in the impression book. This refers to all correspondence not of a personal character, or all which is signed officially. There can be no such thing as an unimportant letter, because the fact of every letter being copied enables us to say positively, "I didn't write a letter to so and so on such a day, because if I had, it would appear in the copying book." This being able to swear to a negative, which can only be done by the aid of a rule without exceptions, is, of itself, worth all the labor attending the copying of letters. Official letters of the bank are written upon its letter sheet, the heading of which, printed in copying ink, contains the clauses, "referring to your letter of ——," and "subject ——," which enables a correspondence on a given subject to be traced through the letter book. Special forms of letters often required, are printed, as letter of transmission to attorneys, with check for the mortgage; letter to depositor, with remittance on his account; request to depositor to present pass book (for the tracing of errors, etc.); circular, explaining to persons at a distance how to deposit without coming in person, called the "remittance circular." Circular with rules as to interest on mortgage, etc. This is used to "stir up" delinquents by underscoring the part against which they have transgressed. Notices of meeting of board of trustees.

Second.—As recording officer of the board of trustees, the secretary performs the ordinary duties of keeping the journal or min-

utes, and filing and preserving documents. He submits to the board at each meeting a report which is confined to the dealings of the bank with its depositors, giving all the statistics as to number and amount of receipts and payments and averages.

Third.—The chief duties of the secretary, or those which occupy the most of his time, are those which he performs as accountant to the bank. Strictly, he has no custody of any values whatever, but all records of transfers of values are directly or indirectly made by him. Thus, he is an auditor of every department of the bank, all of which contribute to him through reports. He keeps personally, or through assistance, all the general books of the bank, that is to say, all the books of the bank except those containing the accounts with depositors. His daily cash book classifies transactions in two ways: 1st, as they affect the general standing of the bank in its relation with the outside world; and, 2d, as they affect merely the increase and diminution of some one of the departments of its cash. These departments are:—

1st. Money in the hands of tellers.

2d. Funds in the vault in the direct custody of the treasurer.

3d. Deposits in banks subject to check signed by the president, treasurer and secretary.

These together constitute the total cash account, and the possible transactions may be of the following kinds:

1st. Money received from the public and paid to one of these departments, or, in other words, an increase of the total cash with an increase in a department.

2d. Money paid to the public, and drawn for that purpose from one of the departments, or, in other words, decrease of total cash, and decrease of department cash.

3d. A transfer from one department of cash to another, or increase of one department and decrease of another.

By means of the inner columns of the cash book, which represent transactions with the public, and which, alone, find their way to the monthly cash, and the outer columns, which represent the various departments spoken of, all the records for a single day are made upon a single page. The possible transactions of a single day will be shown by an example, in which a page of the daily cash book will be shown, referring to the reports, documents and vouchers which form its basis. It will be seen that every figure appearing in the columns of the daily cash has its counterpart in two different documents or reports, and that these bear upon and corroborate each other. The only exceptions are the "vault" and the "check list," which are merely suspended transactions; half-way houses where the Treasurer temporarily detains values.

References and Explanations to Daily Cash Book.

Line 1 has no vouchers. 1b relating to the "Vault," cannot have one, as it merely completes an operation which, like 15, was interrupted by the arrival of the hour of three, when it became impossible to deposit the checks. 1f is included in the sum of line 14, for which the Park Bank gives its voucher in the pass book.

Line 2. Collection of interest. d is supported by Statement No. 784, as follows:

NOTICE.—The half yearly interest, $1,500, on Mortgage No. 443, for $50,000, will be due and payable on the first of May, 1886, at the Union Savings Bank, New York. *Prompt payment is expected.* Receipted tax bill for last year to be exhibited unless already done.

☞ *This Paper is to be SIGNED and returned to us with the payment.* ☜

		NEW YORK, March 1, 1886.
	To the Treasurer of the UNION SAVINGS BANK.	
	SIR:—Herewith I deliver to you, in payment of above Interest, fifteen hundred Dollars. Please acknowledge receipt.	
		JAMES O. SMITH,
EXAMINED.	$1,500 Received by S.	Address, 115 Broadway.

Line 3. Payment of Expense. a is included in the amount $179.07, Second Teller's Report, see page 284. For e see Form on page 297. Voucher signed by teller.

Line 4. d is supported by Statement No. 785, as follows: It is signed by the tenant and countersigned by the teller who received the money.

PLEASE SIGN AND RETURN WITH THE RENT.

UNION SAVINGS BANK.	NEW YORK, March 1, 1886.
Rent will be due Mar. 1, 1886, for No. 335 East 46th Street, from March 1 to April 1, 1 Month, at $1,200 per year.	*To the Treasurer of the* UNION SAVINGS BANK. SIR: Herewith I deliver to you One hundred Dollars, in payment of Rent as stated in the margin.
$100. E. D. J.	GEO. P. TRUMBULL, ...

Lines 5 and 6 refer to a single transaction. As two accounts—"Mortgages" and "Interest"—are affected by it, it requires two lines. Statement 786 is as follows:

		(a) Paid by Tellers	(b) Drawn from Vault.		(c) Checked from Banks.	(d) Received from the Public.	State-ment.	Account.	Vch'r No.	(e) Paid to the Public	
			215 37			1,500	No 784	Interest,			1. From vaul
	J	52 89						Expense,	365	52 89	2. 6 mo. 6 %
						100	785	Rent,			3. Consol. Ga
						10,000	786	Mort. 357.			4. Turnbull,
						116 67	"	Interest,			5. Satisfied,
				P	112,500			U. S. 4½ %,	2344	112,500	6. Che
				C	36,500						7. Bo't of Ver
						500	787	Rent,			8. Transfer..
				P	375			Expense,	366	75	9. Smith, 716
								Realestate, 15	2345	300	10. Banking h
	A	319 65									11. 716 Mad. A
	J	126 18									12. Checks fro
	A	56 12									13. "
											14. Deposit...
											15. Checks fr
											16.
											17.
											18.
											*
											25.
											26.
											27.
				P	1,200						28. Checks iss
120	10 A										29.
17	3 J	6,718 19									30.
		826 13									31.
						10,140 40	159/16	Depositors,			32. Deposits f
								do.	137/13	7,544 32	33. Drafts
						547,472 78					34. Balances,
		31,335 15	40,056 12		377,966 37					449,357 64	35. Balances,
		39,434 31	40,271 49		528,541 37	569,829 85				569,829 85	36.

No. paid, Drafts
No. closed,

☞ This Form is to be returned to us with Signature.

UNION SAVINGS BANK,
NEW YORK, March 1, 1886.

Statement for payment of Mortgage No. 357, on

Property, 292 East 32d Street. Principal	$10,000
Interest at 5 per cent. from January 7 to March 1, 1886, 2 months 24 days.	116 67
	10,116 67

To the Treasurer of the UNION SAVINGS BANK:

SIR—We deliver to you herewith *Certified Check for* Ten thousand, one hundred, sixteen 67/100 Dollars, in payment of the above mortgage, and acknowledge receipt of the following papers: Bond, Mortgage, Satisfaction Piece, Abstract, Insurance Policy.

ALEXANDER AND GREEN, *Attorneys.*
per James Blacstone.

Line 7. Purchase of Bonds. c will be accounted for in the pass book of the Park Bank, which will claim credit for this and other amounts. e is supported by voucher No. 2344, in form similar to that already given.

Line 8. Transfer Between Banks. Having drawn a large check on the Park, a transfer is made from the Chemical, so as to equalize. The current checks are drawn upon the Park, and the balance in the Chemical is kept at some multiple of 365, to facilitate the computation of daily interest.

Line 9. Collection of Rent. Similar to 4, except that payment is received in check.

Line 10, 11. Payment of Expense. Two vouchers are taken for this according to the distinction explained on page 297.

action.	(f) Check List.	(g) Deposited in Banks.	(h) Placed in Vault.	(i) Received by Tellers.	(f) Cash on Hand at Close.
cks brought over....	215 77				1st Teller, 18,856 43
433, Smith; Chem...	1,500				2d Teller, 12,479 72
to Feb. 26					31,336 15
46, 1 mo., Ccy.....				J 100	Over, 1 31,335 15
nder & Green,					Vault, 40,056 12
2 mo., 24 d., 5%.....	10,116 67				Banks,
& Co. at 112½.....					Park, 195,466 37
.....	36,500				Chemical, 182,500 00
son Ave., 5th Nat....	500				377,966 37
Daubwell for painting...					Total 449,357 64
ler	319 65				
.....	126 18				
.....		P 49,277 87			
ler after 3.....			56 12		
....				A 1,200	
				A 376 23	16 00
lay.....Increase,	$2,596 03			J 9,764 17	134 16
" .....Decrease,					
t forward		479,263 50	40,215 37	27,993 91	
e.....					
		528,541 37	40,271 49	39,434 31	

Deposits, No. received, No. opened

Line 12, 13. These are totals of the checks taken on deposit by each teller during the day. They are included in the amounts $375.77 and $179.07, for which the tellers respectively claim credit in their reports. (The report of the first teller is given below, line 30.) Each teller keeps a book in which he records the particulars of each check, viz., the bank on which it is drawn, name of the maker, number of account on which it is deposited, name of last indorser from whom it was received, and amount. The book is handed in to the treasurer with the checks between its leaves; they are compared with the list and the total initialed by him.

Line 14. At the time of making the deposit, the "check list" column is added up. At the same time a deposit slip is made up from the checks themselves and its total compared with 14g. If correct, a press copy is taken of the slip. The teller of the Park Bank receipts by entering the amount in the pass book with his initial.

Line 15. One of the tellers has received some checks too late in the day to be included in the deposit just mentioned. As it is a positive rule that the tellers' final balances must be in actual money these checks are handed in to the treasurer, who enters them in the "vault" column, whence their amount will be taken next morning to form the first item in the check list.

The above entries are made during the day from time to time. The remaining entries are made at the close of business for the day when the tellers have made their reports. The teller's report shown on page 284 is that of the second teller. J——, for the day under consideration. The report of the first teller, A——, contains the following entries, the signatures and "statement of cash" being omitted:

FIRST TELLER'S REPORT.

Dr.		*Cr.*
19,374 16	Balance brought forward,	
376 23	16 Depositor's, 120-10	6,718 19
	319 65	
1,200	Treasurer, 56 12	375 77
5,000	2d Teller,	
	Balance carried forward,	18,856 43
25,950 39		25,950 39

The entries from the report are made as follows: "Balance brought forward" is compared with the previous page, under the head of "cash balance at close." The amounts opposite "depositors" are entered on line 30, a and i. The $1,200 which is composed of checks drawn for payment to depositors who prefer to receive it in that form, is compared with the stub of the check book and entered at 28, under c and i. The $375.77 has already been entered in column a, and is composed of $319,65 and $56.12. The $5,000 is found to be the exact converse of an entry in the second teller's report, and the two are checked off against each other. Finally, the additions having been proved and the two sides found to agree, the balance, $18,856.43 is entered in the statement of "cash on hand at close." The second teller's report is then taken up, examined and entered in the same way, not omitting to note an "over" of $1. The total amount for which the tellers are accountable is $31,335.15, which is entered at 35 a. Then the columns a and j are added up, showing an equality, which proves the correctness of the figures as far as they relate to the teller's funds. Next the entries 32 d and 33 e are made up by adding together, for the former 30 and 31 i, and for the latter 30 and 31 a.

It now remains only to prove the remaining departments of cash, and the aggregate. The amounts in line 34 were brought forward at the beginning of the day from the previous page. The amount in vault is ascertained, entered at 6j and also at 35b. Columns b and j then become equal. The amount in each bank is obtained, aggregated at 8, 9, 10j, and entered at 35c, where it balances the account of the banks. The total cash is now ascertained (11j) and entered at 35e, which gives the equal footing $569,829.85, and proves the cash in bulk as well as by departments.

The voucher or document given by the banks where we deposit is in the pass-book entries: it is made immediately in the case of deposits, but in checks not till the end of the month, when the pass book is balanced. The lines of our specimen page of the daily cash book will

be numbered, and each column forming it will be lettered, and in our explanation the two supporting vouchers of each line will be given in succession.

The intermediate transfers or interchanges between departments of the bank, which occupy so large an amount of the space of the daily cash book, do not, as a rule, go beyond its pages. The inner columns which we have spoken of as representing the relations of the institution to the public, contain all that enters into the general books of the bank, and, with the exception of the entries "deposits received," and "drafts paid," every item in these inner columns is supported by a voucher. These form two series, called the "general vouchers for receipts" and the "general vouchers for payments." Each series is numbered consecutively, but the vouchers for payments form two series. For the sake of convenience, vouchers relating to expense, either of management or of the banking premises, are numbered from 1 to 1,000, repeating these numbers when the thousand has been reached. The remaining vouchers for payment are numbered from 1,000 upward. Upon reaching No. 2,000, the numbers recommence at 1,001. The reason for this is that the series with smaller numbers, or expense vouchers, are subjected to a special analysis in a book called the "Expense Book," and it is therefore preferable to keep them together. These two series of general vouchers for receipts and payments are the basis of all further records. No entries are made from book to book, but always from the voucher to the book, the fact of such record taking place being noted on the back of the voucher. Thus, a voucher for expenditures on real estate other than the banking house is recorded in the daily cash book, in the monthly cash book, under the heading "real estate," in the real estate ledger, under the head of the particular property, and in the general ledger, under the account of "real estate." These four entries are made each direct from the voucher. The letter "D" on the back of the voucher indicates that it has been transcribed in the daily cash book; the letter "M" that it has been entered in the monthly cash book; and the folio of the real estate ledger and of the general ledger are also noted on the back. These four entries must correspond, and any discrepancy between them will be detected by the operation of the trial balance.

The practice of requiring signed vouchers for payments of money has long been an established rule of mercantile practice, but, strange to say, where value of some other kind is paid or given, and money received, it has not usually been customary to insist upon a voucher. In this bank the principle is rigorously carried out that in every transaction involving an interchange of values, there shall be a corresponding interchange of documentary evidence between the parties.*

*See Lecture on Documents as Related to Accounts, published in The Bookkeeper, No. 58.

As the entire accountability of the bank rests upon these documents, so their arrangement in convenient form for examination and reference is of importance. The vouchers for each month are arranged in two series—the receipts and the payments, and each of these has a list, the form of which is printed on strong manilla paper. The inside of the list of vouchers for cash payments contains, first, a certificate from the auditing committee that they have examined all the vouchers mentioned in the list below, amounting to $, and have passed the same as correct. The committee not only signs this, but one of its members marks, with his initial or otherwise, each particular voucher, in order to prevent its being again presented. When the examination is completed, this list serves as a wrapper or jacket, within which the vouchers themselves are tied up. On the outside of the wrapper is a printed form, giving the amount as classified for posting aggregates to the general ledger. The total of this outside list will be the same figures as the total of the numerical list verified by the committee, but it gives simply the aggregate to be charged to each ledger account. For example, the list inside may contain a number of vouchers for money loaned on mortgage. The classified list will simply state—"Mortgages, $." These lists, on the outside of the bundles of vouchers constitute what might be called a grand voucher, which authorizes the secretary to record the transactions in bulk.

An examiner would not, for the great mass of transactions, require any books in order to ascertain the past history of the institution since this method has been in practice. He would simply be handed a number of bundles of vouchers—two for each month—with the authenticated list on the inside of the wrapper and the classified list on the outside, and from these he could himself make up an authenticated history of all the substantial transactions of the bank during the period covered. These are the real records of the bank. All the books are simply transcripts in various convenient and ingenious forms, in which the order of the vouchers is changed for obtaining special results. The vouchers are the history—the books are philosophical combinations of, and deductions from, the facts.

The primary vouchers of the deposit department, as already mentioned, are the deposit tickets and draft tickets, but it would be inconvenient, from the number of these, to file them with the general vouchers. Each teller's daily report is a substitute or grand voucher for those of the day in his department, and these might be filed in that relation; but as they are stated in the form of an account, they would have to be made in duplicate, and therefore, for convenience, the monthly return is required from each teller as to his deposits and as to his drafts.

The secretary makes up at the end of the month two combined vouchers from these monthly returns. He brings together the total amount, and he certifies to its agreement with the aggregate reports

given independently from the bookkeeper's department, so that these two vouchers contain the ultimate condensation of the thousands of drafts and deposits which accrue each month. This might be called a cumulative voucher of the fourth degree. The primary voucher being that signed by the depositor, the secondary voucher being the teller's daily report, and the tertiary being the teller's monthly report. As corroborated by the accounting branch of the deposit department, it consists of even more steps.

The business of the bank has three different units of time—the day, the month, and the half-year—and each of these has its historical record, its counterbalancing proofs, and its final statement of results or balance sheet. The daily transactions are brought to a focus upon the page of the daily cash book, and are also repeated in various forms in special ledgers, namely, the deposit ledger, mortgage ledger, loan ledger, stocks ledger, real estate ledger, rent ledger. For information, there is also kept in the daily cash book, below the cash entries, a daily statement of profit and loss and a daily balance sheet, so that at the close of each day the exact status of the bank, as near as can be ascertained, is recorded.

An accurate account is kept, in this book only, of the interest, to the nearest fraction of a cent, which is earned on each class of investment, and this is added to the accrued interest account daily, and also credited the income account. Similarly the accretion of rents and any other profits is recorded. On the other hand, the exact daily amount is apportioned for payment of salaries, of taxes, of dividend as estimated, of general expenses, and for the extinction of the premium on bonds as they approach maturity.

Each of these elements produces its effect on the profit and loss or surplus account, and equally on some branch of the resources or liabilities, actual or estimated, so that the business of the day results in a balance sheet, the cash transactions appearing above, being, of course, taken into consideration.

The balance of each department of the cash, and also of the cash as a whole, is also verified daily. The monthly work consists in the aggregation, by the means already explained, of all the events of the month into two sets of columns, which give the general condition. These totals, when posted to the general ledger, form the basis of its trial balance. The trial balance of the general ledger is not precisely identical with the balance sheet contained in the daily cash under the last day of the month, for this reason: The general ledger, in its current or normal state, is kept on the basis of cost. No profit or loss, by depreciation or appreciation, is recognized until realized by the actual disposition of the proceeds. Hence, the trial balance of the general ledger is a balance sheet on the cost basis, while the daily balance sheet is on the basis of present market values.

The secretary completes his monthly work by making up, from the figures thus obtained, the reports to be submitted to the next following meeting of the board of trustees. At the monthly meetings

in June and December, being the last months of the half years, it is required by law that the dividends be fixed according to the profits earned. It is therefore necessary for an estimate of the earnings and expenditures of the half-year to be submitted, as a basis of this dividend. This can very readily be done, as five-sixths, or nearly eleven-twelfths of the period have elapsed. At this meeting, therefore, the secretary submits such an estimate, showing, as its result, the rate of dividend which can be allowed, usually leaving a margin to be added to the surplus. The board then votes upon the dividend, and the secretary issues orders to the bookkeepers to make the calculations at the prescribed rate. At the same meeting the examining committee is appointed, and this is the first step in the preparation of the semi-annual official reports. It is necessary that every facility be provided for this committee to examine in detail, as far as advisable, the exact condition of the bank. The secretary prepares a balance sheet in blank, containing headings and spaces for all the departments, of resources, of liabilities, and the surplus, with their several values. He also prepares numerous blank schedules, each referring to one of these departments, and giving the individual units which make it up. Thus, under the head of stock investments, Schedule C, for instance, would be given the following information: Title of stock and by whom issued; rate of interest; year of maturity; amount at par; cost; present market rate; present market value; interest paid to what date; amount of interest earned but uncollected.

As the last day of the month approaches, at the close of which it is the duty of this committee to make its examination, the secretary begins to fill in the figures of these schedules, first, of course, in those departments in which there is the least chance of a change occurring. Thus, if it is not probable that there will be any further purchase or sales of stocks and bonds, the stock schedule can be filled up as to all the particulars, except "market rate" and "market value." In order to ascertain the market rate of such securities, recourse must be had, where possible, to published quotations or to the opinions of experts. The secretary usually sends, a few days beforehand, to several firms of respectable brokers who make a specialty of dealing in public investment stocks, a list of the kinds of securities held by the bank, giving the title, date of maturity and the rate of interest, and requesting a reply in the margin to the question, "What would be a fair market value for each of these classes of securities at the close of business on the last day of ....?" These are filled up and returned by the brokers on the last day, for the information of the committee. Other departments of resources also require corroborative evidence, which it is the duty of the secretary to procure. As to balances deposited in banks, he requests the cashier of each depository bank to certify the balance on deposit at the close of the month to the chairman of the committee direct. In case the amount thus certified differs from the amount appearing on the check book, it is

the duty of the secretary to explain and to furnish evidence of the disparity, which usually arises from checks issued but not yet presented, and the committee should, during the following month, or whenever it can be done, make a re-examination of the checks which were outstanding. If there be any papers in the mortgage department which the committee is entitled to see, and which are in the hands of the attorney for the purpose of foreclosure or otherwise, a certificate of their contents must be furnished by the attorney. As to real estate owned by the bank, if necessary, a disinterested appraiser, experienced in real estate values, should be employed to make a survey and report; and this should also be done in the case of mortgaged property, if there has been such depreciation as to make the margin precarious. All of these preparations, although part of the committee's work, are, in practice, attended to by the secretary in order to lessen the burden of labor for the committee. Besides the report of the committee to the board of trustees, there is an official report to the superintendent of the bank department, which is required by law to be made semi-annually at the dates mentioned. The body of this report, or balance sheet, is verified by the oath of the examining committee, and is identical with the balance sheet contained in their report to the board of trustees. The report, however, is submitted and sworn to in its entirety by the president and secretary, and is prepared by the secretary from his books. The main report or balance sheet, just described, contains, in the blank form furnished by the State department, a column headed "resources," and another headed "liabilities."

Besides the main report above given there is a summary of cash transactions for the half year, or in the December report for the whole year, and schedules marked from A to I.

The table of cash transactions begins with the balance on hand and in banks at the commencement of the period, to which are added the receipts, classified according to their sources. Then follow, on the other side, the payments similarly classified, concluding with the balance on hand and in banks at the close of the period. Under our system, these aggregates are readily obtained from the bundles of cash vouchers for receipts and payments, respectively, being in most cases simply an adding together of the six monthly totals. In some of the particulars a little analysis is necessary from the wording of the blank, some items not exactly coinciding with either of the accounts kept in the General Ledger of the bank. It is, however, a principle in this institution, that every official report must have its figures, in some shape, derived from the books of the bank. It is too frequently the custom, in institutions of this kind, and perhaps of other kinds, that the sworn reports are made independently of the books, and that there is no way of directly tracing the connection between the two. As duplicate blanks are furnished by the department, in order that the bank may retain a copy of its official report, it is the practice in some

banks to make references, by book and page, on the face of the copy retained, which will show precisely how the figures are obtained from the books. These schedules are given in the appendix.

Schedule A, No. 1, contains a list of mortgages taken during the period covered, with the valuation of the property mortgaged as security, and serves as a general mortgage account, corroborating item 1 of the resources.

Schedule A, No. 2, contains a list of mortgages paid off, in whole or in part, during the period covered.

The theory of these two reports is to enable the department to ascertain the amount out on mortgage, and the security therefor; but to make up such a statement from the schedules of many years, would be a very laborious process. It would seem preferable, that occasionally, say once in three or five years, a special report should be called for, giving a full list of the mortgages as they then existed, with the location of property, and an appraisal, which the department could verify at its leisure.

Schedule A, No. 3, is a special list of those mortgages, the interest on which is more than six months in arrears. By the law, in the State of New York, any mortgages, on which the interest is not more than six months in arrears, are to be taken at their full value, and the superintendent has a right, in case of the mortgages comprised in Schedule A, No. 3, to affix a value. It is not known that he has in any case made such a valuation. In a prosperous bank, in ordinary times, this schedule should be blank.

Schedule B is a list of the bonds or stock investments of the institution, and its arrangement is commendable. In the case of stocks and bonds, a different plan is pursued from the one adopted in reference to mortgages. In mortgages, the increase and decrease during the period are alone considered. In stocks, the increase and decrease are entirely disregarded, and only the final status given in this schedule. Schedule J gives the particulars of all purchases, but the details of sales are nowhere reported.

Schedule B is recapitulated on a smaller blank for the convenience of the department.

Schedule C is headed "Loans upon pledge of Securities."

Schedule D gives the details of cash; first, as to that deposited in banks and trust companies, not only is the amount on deposit stated, but also the capital and surplus of the depository bank, as shown by its last official statement. The reason for demanding this information is, that a Savings bank is prohibited from depositing in any bank or trust company more than a certain proportion (twenty-five per cent.) of the capital and surplus of the latter.

Schedule E is entitled "Assets of Every Description Not Elsewhere Enumerated." It contains, first, a computation of the amount of interest due and accrued on various assets, the total of which is carried to line 8 of the main report. Second, all other assets, their aggregate making up line 9 of the main report.

Schedule F contains a classified account of the current expenses of the bank for the period, such as salary, taxes, insurance, repairs, stationery, advertising, etc. The numbering of the schedules, which, previous to this point, was regular, now becomes arbitrary, as different schedules have been inserted according to the views of different officials.

Schedule G, No. 1, contains receipts of all kinds not otherwise stated, while G, No. 2, is devoted correspondingly to miscellaneous payments.

In Schedule H we again return to resources. This contains a description of all real estate owned by the bank, whether for banking purposes or purchased under foreclosure sale, giving the location, how acquired, when acquired, original cost, present appraised value, amount of income derived during the period, amount of expenditures on it during the period. Only one of these columns demands special remark—the one giving the cost. There is a difference of opinion as to what constitutes the cost of a piece of property bought in at foreclosure sale for less than the face of the mortgage, and other charges.

First.—It is the usual way to consider that the entire amount of the mortgage, interest, taxes, legal costs—that is to say, the entire cost of the mortgage investment is also the cost of the real estate. For example:

The face of the mortgage is	$10,000
The interest is	600
The bank has paid taxes	230
Insurance	42
And cost of suit	325
	$11,197

Now, under the present view, this $11,197 would be considered the cost of the real estate bid in, regardless of what the bidding price was, and regardless of what it was really worth. But, suppose the property is offered at public sale, and the bank bids $9,000, no one offering more, then,

Second.—I hold to the opinion that the cost or purchase price of this piece of real estate is not $11,197, but $9,000. It is true that the entire investment was $11,197, but what have we done? We have taken, in part satisfaction of our claim, a house worth $9,000, and for which no one else has bid more. The remaining $2,197 is not wiped out. We have a deficiency judgment for it against the bondsman. If this proves worthless, of course we lose the $2,197; but that is not to be assumed prima facie. Suppose another person had bid $9,000, and we, thinking that the full price, had let it go, would he, the purchaser, consider the property worth any more than $9,000? He does not know of our claim; $9,000 represents to him the entire cost. We, on the other hand would have still the deficiency judgment for $2,197. Possibly this is worthless. If so, it is our loss; but the loss is on the

bond, not on the real estate. When we buy in the property we happen accidentally to be the purchaser and, at the same time, the judgment creditor; but this should not merge in one two entirely different transactions. Suppose, after buying the property for $9,000, we sell it for $10,000. This gain of $1,000 does not lessen our claim on the deficiency judgment. If the debtor should be, or should become, solvent, we can still collect of him the full amount. The rise of $1,000 is our gain. But how can it be a gain if the cost was $11,197? I am aware that in this opinion I am nearly single-handed against all parties and current opinion, but believe that my view is strictly correct.

Schedule I is a miscellaneous one. Before the statement of cash transactions was prescribed, Schedule I contained questions eliciting much of the information which is now contained in that statement. Therefore, its present contents are, to some extent, a repetition of what has already been given in the statement of cash transactions, and to some extent contains matter which more properly belonged there. All statistics which relate to financial values should be grouped either under the resources or the liabilities, or the receipts, or the payments, not in a miscellaneous schedule which contains such items as the number of trustees and the number who have attended each meeting. In this schedule occurs the question, "Date of taking last abstract of balances due depositors as shown by depositors' ledgers," and "What was the amount of the discrepancy, if any, between the aggregate of such balances and the amount shown by the general ledger due to depositors at the same date?"

The law requires, what a prudent bank would of its own accord prescribe, that an accurate list or balance of amounts due depositors shall be taken at least once in six months, and that the discrepancies, if any, found on that occasion be reported to the superintendent. The process of this balance might have been described under the bookkeeper's department. It has there been stated that the balance due each depositor is proved whenever there is a change, so that, substantially, the ledgers are always in a state of proved accuracy as to individual balances. We have also seen that each month the aggregate amount due the depositors of each ledger is ascertained, and that by aggregating these the grand total, as shown by the general ledger, is corroborated. These processes continue during the half year, and the results of monthly reports are entered in a book kept by the secretary called Ledger Balances. At the end of six months there is an additional column for dividend, and, including this, the balance due depositors is again ascertained, and this is the basis of the semi-annual trial balance required by law. Each of the ledgers ought to show a certain amount of aggregate balances, and this list, added together in the book called Ledger Balances, equals the amount reported to the bank department as due depositors on the 1st day of January or July. Each bookkeeper transcribes into the book already mentioned under the name of "interest and balance book," opposite

the proper number, the amount owing to each depositor. Having done this, and carefully compared it, he adds the entire amount together, and, if perfectly correct in every respect, the sum total should equal the corresponding line in the ledger balances. If it does not so equal, there is probably an error, either in transcribing some amount, or in adding up some page, or in adding the interest to the previous balance. It might be mentioned that the work is facilitated by writing in red ink, in the balance column, the result produced by crediting the dividend. It has been found by experience that any partial method of examination, in order to find the reason of any discrepancy, is ineffectual. Such methods we call "stabbing." We have an exhaustive method, which we call "taking off drafts and deposits." It consists in taking the original tickets of all the transactions of six months, and assorting them in a mass, numerically, so that, for example, in ledger 27, the transactions of six months will be represented by two series of tickets, the deposit tickets beginning with the deposits on account No. 135,001, and ending with the deposits on account No. 140,000. The draft tickets form a separate series, beginning and ending in the same way. When this assorting is completed, we copy off each of these series of tickets by amounts only, but we do this in sections. Suppose the first page of the interest and balance book comprises Nos. 135,001 to 135,050, then we write down all the deposits in the same compass, and take their total. We write down all the drafts in the same compass, and take their total. Then we form an equation thus: Old balance + deposits + dividend=drafts + new balance. Or, in another form: Old balance + deposits + interest —drafts=new balance. If this equation holds good, the first page is considered correct, or proved. Then we go on to the second page, and so on. Probably we discover by this process the whole or a part of the discrepancy by the time we reach the end. If not, we put together the totals; that is, we arrange the page footings in tabular form in five columns, so that by footing these columns we obtain of the entire ledger the same equation: Old balance + deposits + interest = drafts + new balance. This ought to prove. If it does not, some one of the pages which we believed to be in proof has really been out of balance. Having brought this final equation to an adjustment, our next step is to ascertain in which column the error is. We have an independent statement of every one of these columns, and we make the comparison of each in succession. The old balance we have before us in the same book—the interest likewise, and the new balance. If one of the two former of these is incorrect, the defect is soon remedied, but when these two columns have been corrected, we still have the drafts and the deposits. To find the total drafts of six months, add together the drafts of January, February, March, April, May, and June successively, and similarly with the deposits. Now, this gives us a test of the second and fourth columns of our final equation. If, at last, we find that the error is in one of these, we first go back, comparing the tickets with our transcription of them. If this fails to discover the error,

it may be necessary to re-assort the delinquent tickets, either draft or deposit, by months, and ascertain in which month the error occurs. Having located it in the month, it may be necessary to re-assort that month by days, and locate it by the tickets. But ultimately we must find it. The process is absolutely exhaustive.

The second question propounded by the bank department as to the balance is, what is the amount of the discrepancy? One of the New York banks constantly reports at present, "Old discrepancy prior to April 13, 1874, $2,386.08." For some years this has not varied. The following is its history: Up to the date mentioned there had been no accurate balances of the depositors' ledgers. While the bank was small, the importance of searching out and correcting the minute errors which then existed was not understood. The first trial balance taken was about $50 out of the way. The accounts were only a few hundred in number. It would have been an easy matter to analyze the work up to that point and to have discovered the error, but it was thought near enough. These two words, "near enough," are the most dangerous that can be used in bookkeeping, for an error which is apparently near enough may be the resultant of opposing errors each of large extent, and one of which will threaten danger. Presumably, the labor of finding this first difference was postponed until a more convenient season. As the work increased, this search, which was the business of nobody in particular, became less and less likely to be effected, and the next year rolled around, and it came time for another trial balance. Now the number of depositors had largely increased, and it was said, "Never mind the old error; it will probably turn up this time." Nobody knows whether it turned up or not, because the error this time was over $100 on the opposite side, so out of the mud we got into the quicksand. Each year the same trial at a balance was made, and with the same lack of success, ending with the same motto which was at first inscribed on our banner, "Near Enough." Near enough one time meant $6,000 until a few months later it was found that a little error of $13,000 in a semi-annual dividend had been made, which brought the "near enough" to $7,000 the other way. Some radical spirit among the bookkeepers became dissatisfied with this erroneous discrepancy, and began to think that it was better to undertake a great deal more labor, and to know at least that the current work of the bank was proceeding correctly; so, on the 13th of April, 1874, they divided the ledgers among themselves, and commenced, in an imperfect way, to keep each ledger in balance as an independent equation, and to actually search out all the errors in each ledger. It is true this was somewhat like the proverbial needle and haystack, but the difference was that the haystack was very much smaller. Gradually the system has been improved in simplicity and effectiveness until the present time, and the old discrepancy of $2,386.08 is the relic of the old errors. This may some time all be found, but the probabilities are that it will not. The present secretary began, a few years ago, a process of bridg-

ing over the period of chaos by beginning to do what was not done twenty years ago, namely, to take an accurate trial balance of the work at the end of each half-year. Three of the years have thus been completed, but the process of going through the remaining fourteen years involves colossal labor. Possibly it may at some time be thought worth while to employ a special corps of clerks to do this. As an illustration of how deceptive the "near enough" principle is, it may be mentioned that at one time our discrepancy was only $700—apparently. The discrepancy account had, by successive finds, worked down to this point, when, by pure accident, it was discovered that the amount in the general ledger, which had been considered as the standard, or norm, was itself $10,000 away from the truth by a single error. This startling discovery was enough to unsettle the minds of the most fanatical adherent of the "near enough" theory. A search was made through the mouldering pass-books, thousands and thousands of which, having been closed and surrendered, were lying in numerical order in the cellar. Luckily they had been preserved. By comparing them with the ledger it was found that about $8,000 of principal stood open on the ledgers of the bank, when, in reality, the accounts had been entirely closed. A dishonest employe might, by discovering these and compromising with the depositor, have abstracted a large amount, especially as the accrued interest on the same amounted to over $6,000. At one stroke, by the closing of these accounts, there was a gain to the surplus of the bank of more than $14,000, and the effect upon the discrepancy account was to bring it to 2,300 and odd dollars. Very little has been found since that time, but it is considered a matter of duty to report the amount every six months to the bank department. It has often been suggested, Why not close this account into profit and loss? The answer is that an error might be discovered the very next day, which would require its re-opening, and that it is better to leave the account open forever if necessary, or until the last cent of discrepancy of those fourteen years has been discovered. This story of error has been related, because history has so often repeated itself on this point. The writer has been surprised to find how many large institutions have had almost the identical experience, and the old, old story of beginning business with a small force, and with a system which was not expansive, and which was soon outgrown. The Bowery Savings Bank, which is the largest in America, perhaps in the world, only subdivided its work and took a new departure with a large discrepancy within five years; and at this moment the Bleecker Street Savings Bank is still operating, on its initial or fundamental balance, for a new system; a balance taken in the air, so to speak, as a point of departure. A clerk in an old Savings bank in Salem, Mass., was relating to the writer only a few weeks ago the history of the book-keeping of his bank, which was almost word for word like the one given above, even to the disinterring of the old pass-books from the cellar, with this further incident that in the Salem case the pass-books

were unclassified and lay in mouldy heaps. This embellishment was lacking in the case cited above.

STATEMENT FOR PARTIAL PAYMENT. Mortgage No.....

Property situated .... Payment on principal, $.....

Interest on payment to date, ... m.....d. at.....%; paid, _____

Total cash received by..... $..... .....

New York,.....

To THE UNION DIME SAVINGS INSTITUTION:

Herewith I deliver to you certified check for the above amount, being a partial payment, on Bond and Mortgage, of.....thousand.....hundred Dollars, with interest thereon to date.

☞Please sign. ....

RECEIPT FOR PARTIAL PAYMENT. Mortgage No.....

Property situated .....Payment on principal, $.....

Interest on payment to date, ...m. .... d. at..... per cent.; paid, _____

leaving principal unpaid, $.....

New York,.....

RECEIVED, as above stated, from .....

.....thousand.....hundred Dollars, with interest thereon to date, as a partial payment on Bond and Mortgage to the UNION DIME SAVINGS INSTITUTION; to be acknowledged also on the bond.

.....

NOTICE.—Interest will be due and payable Nov. 1, 1897, on Mortgage No..... at the Union Dime Savings Institution, Broadway, Thirty-second St. and Sixth Ave, New York. *Prompt payment is expected.* Receipted Tax-bill for last year to be exhibited unless already done.

PRINCIPAL, $..... RATE, ...per cent TIME, 6 months. $.....

☞Please sign below and return with payment ☜

Check to the Order of the institution on the

....

For.....$.....

Currency $.....

(.....)

New York,.....18..

To the Treasurer of the UNION DIME SAVINGS INSTITUTION.

Sir: Herewith I deliver to you in payment of above

Interest..... .....Dollars.

Please acknowledge receipt.

Signature..... .. ..

R. L. M. D. Address.....

Receipt to be acknowledged also on bond.

RECEIPT FOR INTEREST. Mortgage No.....

PRINCIPAL, $..... RATE, ...per cent. TIME, 6 months. $.....

New York.....

RECEIVED FROM..... .....Check for

.....Dollars,

for interest to Nov. 1, 1897, on Bond and Mortgage to the Union Dime Savings Institution.

....

....

☞Your Mortgage is subject to the Regulations on the other side.

☞ This Form is to be Returned to us with Signature, and may be copied in the Press.

UNION DIME SAVINGS INSTITUTION.

Broadway, 32d St. & Sixth Ave.

New York,..... ....189..

Statement for Payment of Mortgage No.....

on Property..... .....

Principal, - - - - - - - - - -	$	.....	.....
Interest at.....per cent. from..... to .....months.....days,		....	.....
.....		.....	.....
....		.....	.....
....		.....	.....
Preparing Papers, - - - - - - - -	$		

To the Treasurer of the Union Dime Savings Institution.

Sir:—I deliver to you herewith Certified Check for

....Dollars,

100

in payment of the above mortgage, and I acknowledge receipt of the following papers: Bond, Mortgage, Satisfaction Piece, Abstract, Insurance Policy.

CHAPTER IX.

THE PRESIDENT.

In many Savings banks the duties which have been described as shared between the treasurer and secretary, are divided between the president and treasurer, or the president and secretary. The president is usually not a salaried officer, and in that case his duties are practically confined to presiding at the monthly meetings. He is rather president of the board of trustees than president of the bank. In other institutions he receives a small salary, attends daily, but not during the entire session, and has no routine duties, but superintends and advises in all departments. He is required by the by-laws to execute all deeds, releases, satisfactions, or other documents in the nature of a conveyance of real estate, and to countersign all checks. Although it may seem wasteful to employ an officer of a corporation with no stated routine duties, yet where the trust is large the writer thinks emphatically that this should be the case—that the duties of the highest officer should be entirely discretionary with himself, and that he should possess such an intimate and also such a broad knowledge of the business that he himself is the best judge of what department needs his personal attention, and that he himself can be held responsible for everything.

CHAPTER X.

THE BOARD OF TRUSTEES.

This body is the ultimate governing power of the bank. It is the final jurisdiction, from which there is no appeal within the bank, and in fact there is no appeal whatever, for the only remedy in case of wrongdoing is to punish the trustees personally, and to remove them, which, however, would not act as a reversal of their decisions. They are supreme, and responsible only to the people of the State, through their representative, the Superintendent of the Banking Department. The board of trustees consists of not less than fifteen nor more than twenty members. Under the State law not less than thirteen is requisite. The board elects to fill its own vacancies occurring by death, resignation, or neglect of duty for six months, and its actions in this respect cannot be questioned if the record is clear.

Seven members of the board constitute a quorum, provided the president, or one of the vice-presidents, be among the number. The entire government of the affairs of the bank, from the most minute detail up, is vested in the board of trustees. The powers, which practically are exercised by the executive officers of the bank during the intervals between the sessions of the board, are those delegated to them by the board, as expressed in its by-laws. Some of the duties cannot be delegated. A loan on mortgage can only be made upon vote of the board, based upon the report of the committee. The rate of dividend can only be declared by the board at its annual or semi-annual meeting, and this vote must be recorded by ayes and noes. If a dividend exceeding the accumulated earnings should be declared, it would stand as regards each individual depositor, but the trustees voting for it would be personally liable for the amount of the excess. The election of officers and committees is another duty which must be exercised by the board itself. With these exceptions, the government of the bank is discretionary as to means with the boards of trustees, and they may delegate so much of their powers as they desire. It becomes impracticable to do otherwise as regards the routine business of the bank, and the transactions in those investments which are of a less permanent character than upon real estate security. Even the restriction as to loans on mortgage is found a serious inconvenience, and is believed to be systematically disregarded by many banks.

Applications are acted upon after examination by a committee, but without previous submission to the board. The more important of the committees usually established in a Savings bank are Finance Committee, the Attending Committee, the Auditing Committee, and the Examining Committee.

The Finance Committee is intermediate between the board of trustees and the treasurer, and considers and acts upon the more important questions which arise in his department.

The Auditing Committee may be regarded as bearing a similar relation to the secretary. It is required by the by-laws to examine and audit the vouchers for all payments. Also to count the cash on hand at least once a month. The process of auditing the vouchers has been described under the secretary's duties. It may be further said, that in so far as the audit is intended as a check upon embezzlement, it should comprise also the cash receipts as well as payments. It should be ascertained whether the receipts have all been fully accounted for. Like all other amateur committees of examination, the proceedings of this committee are almost inevitably perfunctory. They are very seldom thorough—very seldom go to the bottom of the figures which they are supposed to examine. Having ascertained that a certain amount of payment is supported by the proper vouchers, they very seldom even enquire whether this is the entire amount of payment to be accounted for, which simple omission completely destroys all utility of the examination. The officer whose work they are supervising has only to withhold all questionable or improper vouchers from their examination. Such committees seldom take the time necessary for the proper performance of their duties, and seldom possess the ability. They ought, in justice to themselves and to their trust, to employ skilled assistants to point out, at least, the way in which to do their work more thoroughly.

The duty of the Examining Committee is to ascertain the precise condition of the bank at the close of the semi-annual period. An idea of the manner of performance of their duties may be gathered from the description of the schedules furnished them by the secretary as a basis of their examination. One of their number makes up from the figures thus ascertained a report to the board, analyzing the history, results, and prospects of the institution. This committee is also required by law to endorse upon the official report made to the Bank Department their affidavit as to its correctness, so far as the report proper or balance sheet goes.

The Attending Committee. In the infancy of Savings banks, when they were looked upon as charitable institutions, the members of the board of trustees attended in rotation at the bank; but what they did beyond lending a general air of elderly benevolence has never been ascertained. Where this custom is kept up, they almost invariably sign their names in a large book, and this is probably the most important of their functions. Such attendance inevitably degenerates

into a farce. In this institution it has been abandoned. All members of the board of trustees are welcome at all times, and even if they were not welcome, it would be their duty to visit the bank, and keep themselves informed. This many of them do, and the more irregular this attendance is in point of time, probably the better it is.

CHAPTER XI.

THE ATTORNEY.

The peculiarity of Anglo-Saxon law with regard to its arbitrary distinctions between real and personal property is well illustrated by the fact that a Savings bank can safely effect investments of millions in securities and valuables with only a layman's knowledge, while it is impracticable or inadvisable to stir in the most unimportant transaction which regards real estate, without a lawyer at one's elbow. Yet the property in the latter case is more readily identified than any other in the world. It is impossible to counterfeit it; it is the most visible, most tangible, most impossible to secrete, and most exposed to the public eye of all property. Nothing but the barbarous state of our laws, borrowed from a form of government whose policy it is, of set purpose, to prevent transfers and diffusion of titles in land, has caused this.

The attorney of a Savings bank is not usually a salaried officer. The greater part of his services consist in the examination of titles to real estate, upon which it is proposed to loan on bond and mortgage. The law prescribes that the charges for such services shall be paid by the borrower. It would in many cases be to the interest of the bank to pay them voluntarily, in order to secure a desirable investment or a greater rate of interest, but the law, as construed by most Savings banks, prevents this.

When an application for loan on bond and mortgage has been accepted by the board of trustees, the fact of this acceptance is endorsed upon it by the secretary and the paper forwarded to the attorney. The proposed borrower is notified to wait upon the attorney with the papers which he may have in support of his title. The amount charged by the attorney for his services in making the examination are on a scale fixed by the customs of the profession, but subject to varying through negotiation. Frequently the borrower, especially of late years, goes to the attorney and says, "I will take this money of your institution provided you do not charge me more than such a sum." Generally the disbursements, that is, amounts paid to public officials for searches, constitute one portion of the charge, and the fee of the attorney for the labor and responsibility of certificate form another portion, and this latter is a fixed or sliding percentage

upon the amount of loan. In many cases the labor is very slight, as there may be an abstract giving the chain of title to a very recent date, which has only to be copied. Still there is a responsibility on the part of the attorney for its correctness, and theoretically, at least, he is supposed to be liable for damages in case he has not properly performed his duty. The writer knows of one case in which the attorney assumed the burden of a defect in a case where he was really careful, but where a second person, of the same name as the owner, had personated him. It is proper, in the letter of instructions which accompanies the check sent to the attorney to complete the loan not to direct him to pay to a certain person, but to pay to the owner of such property.

From the amount of this check the attorney deducts the expenses and charges, and pays over the net proceeds to the borrower, taking his receipt, of course, for the full amount, and giving him a receipt for fees. The borrower's receipt is endorsed, as already stated, on the back of the application. When a mortgage is satisfied or assigned, the necessary papers for that purpose are drawn up by the attorney, and he is responsible for their correctness, the officer signing whatever he advises. A payment on account, not being a matter of record, is effected without the assistance of the attorney.

In case of foreclosure, the matter is placed entirely in the hands of the attorney up to the time of the sale. When it comes to the amount to be paid, this is a business matter which is decided by the officers of the bank. If bid in, it is the duty of the attorney to see that the title is perfected in the bank, and the judgment is regularly entered for the deficiency, if any, a transcript of which judgment should be delivered to the bank. It is also his duty, if advisable, to institute supplementary proceedings in order to execute this judgment. If a purchaser be found for the property held by the bank, it is the duty of the attorney to draw up a contract of sale, which generally stipulates that the final delivery of the deed shall be at his office, and here, again, he is responsible for the correctness of the paper.

Very few cases occur in which the bank requires the aid of counsel in regard to its money or deposits. Advice is sometimes requisite as to the construction of the statute law, and there is sometimes litigation arising from adverse claimants to moneys deposited, or from alleged errors on the part of the bank. A certain by-law which has been adopted by most of the Savings banks, and which has in the main been sustained as reasonable by our Court of Appeals, has been a fruitful source of litigation. This by-law is usually to the following effect—that the bank will endeavor to prevent fraud, but any payment made to a person producing the proper pass-book shall be valid. Sometimes the expression is "will use their best endeavors," and this has been construed to require a much higher degree of care than demanded by the other phraseology. What constitutes a proper amount of diligence on the part of the bank is the turning point of

many cases, and the question of fact is usually submitted to a jury, who, in the vast majority of cases, find against the corporation. In the cases of trust accounts, of associate accounts, of insolvent depositors, and depositors deceased or supposed to have deceased, there are frequently adverse claims, and the bank is usually secured by having the amount nominally paid into court to abide the result of the action between the other parties; but if paid over to one of the claimants, there is danger of litigation and possibility of loss. This has been the case even where money was paid over on genuine letters of administration granted upon the effects of a person believed to be dead, but who inopportunely appeared and had to be paid a second time.

CHAPTER XII.

STATE SUPERVISION AND REPORTS.

In many, but not all of the States, officers are appointed for the purpose of supervising and regulating Savings and other banks and their affairs. In New York State* no Savings bank can be organized hereafter without the assent of the Superintendent of the Banking Department, and there seems to be no appeal from his decision. During the existence of the Savings bank it is subject to his inspection by means of examinations and reports, as follows:

A semi-annual report, as already described under the duties of the secretary.

A special report on any subject and at any time required by him.

An examination by himself or by deputies once in two years.

A special examination whenever, in his judgment, it shall be necessary.

The expenses of special examinations are borne by the corporation examined. Those of the regular examinations and other expenses of the department are borne by the corporations in proportion to their size, and, finally, the remedies in the hands of the Superintendent in case of improper action, are, first, the publicity effected through his report to the Legislature, and, second, his power to make complaint through the Attorney-General in case of violation of law, or improper exercise of corporate powers; and the remedies which may be applied by the court upon this proceeding are: Removal of the board of trustees or any of their number; appointment of receiver and dissolution of the corporation, or the consolidating of the institution with a similar one which may be willing to accept the transfer.* * * The Superintendent has recently been given supervision over the receivers of failed Savings banks, who are now required to report to him, and he has been made the custodian of any unclaimed balances which the receiver may have on hand in favor of depositors at the termination of his receivership. Thus, during the existence of a Savings bank

*All institutions of the kind within the State are made subject to its control, and a penalty is imposed for any person receiving or offering to receive Savings deposits in any town where there is an organized Savings bank.

the Superintendent has no positive governing power over its acts, but is the head of a bureau of information. He himself has no power to remove trustees, or to annul any of their acts, but the moral power given by his authority for compelling information is probably beneficial.

The problem of State supervision is a very difficult one. A supervising department like the one under consideration usually becomes, after a time, a mere bookkeeping department, and if the reports of the several institutions check off correctly on his summaries, as found by the clerks in his department, the Superintendent goes no further, but devotes his time to the more congenial and dignified pursuits of practical politics. This is without any evil consequences in peaceful times, when there is no financial embarrassment, and everything goes swimmingly, but usually the same let-alone policy is continued from the force of inertia, into a period when the times begin to grow shaky, and generally the superintendent awakes to find that his rose-colored reports, for some time past, have been delusive. Then there will be a reaction from King Log to King Stork, and the state of the most prudently managed institutions will be looked upon with suspicion, and very likely some unnecessary wrecks will be the consequence. This was the case in the period of financial reaction, which followed our Civil War and reconstruction period, and presumably its history will repeat itself.

There is one very important lack in the system of reports as now carried on. There is nothing corresponding to a profit and loss account. There is nothing to show, analytically, whether the dividend which has been paid to depositors has been earned during the period covered, or whether it is subtracted from the previous reserve; whether it is strictly from the income, or whether incidental gains have been relied upon to help it out. Such an account should be required from every Savings institution, and should be most carefully scrutinized. In doing so there is a very important element which may readily prove deceptive. It is the question of premiums on stock investments. Let us suppose that the normal rate of interest on money is about four per cent., and that it does not vary much from that figure on fair security, and let us suppose that a municipality has issued its bonds, bearing ten per cent. interest, and payable in twenty years. Let us again suppose that another municipality has issued its bonds, bearing five per cent. interest, and payable in ten years, that another one has issued three-per-cent. bonds, payable in fifteen years. We are assuming that the security in all these cases is as good as anything human can be. In case of the ten-per-cent. bond running twenty years, it is evident that there is an extra interest of about six per cent., which is to be collected every year above the market rate. Therefore, the longer this thing continues the more valuable is the bond, and we shall indisputably find that it bears a proportionate premium. The value is not expressed by the par $100. It is the present

worth of $100 due twenty years from now × the present worth of $10 due one year from now, × the present worth of $10 due two years, × the same at three years, × etc., and in order to be perfectly accurate these present worths must be computed at compound interest, and this computation must be semi-annual or annual, according to the terms of the bond. The five-per-cent. bond would not be worth so much, both because there is a smaller excess of interest over the market rate, and because this excess continues to run for a shorter time. The three-per-cent. bond would be worth still less. In this case there is a deficiency of interest which the buyer should be compensated for now, and the longer it has to run at three per cent. the worse off is the purchaser; therefore, this bond would be worth less than par. Now, it has been claimed that the true measure of the surplus of a Savings bank, as far as its stock investments are concerned, is the nominal or par value of those investments. That is to say, a bank having seven-per-cent. bonds to a certain amount is no better off than one having 3.65-per-cent. bonds A bank whose seven-per-cent. bonds mature next year is no stronger than one where the seven-per-cent. bonds have twenty-five years to run.

The advocates of this theory consider that they are acting on the safe side. They consider the premium as a loss, once for all; therefore, at a period of buying, they would cut down the dividend to depositors, perhaps to nothing, simply because the institution has been making favorable investments. On the other hand, in subsequent after years, they would treat the entire revenue from these bonds as all profit, and thus the depositors at this time would receive more than would be, on the other theory, the fair earnings of their money.

Another plan is to hold the stocks at the amount they cost. By this means the loss, instead of being thrown upon the year in which they were purchased, is thrown into the year during which they are sold or redeemed, and this is a still more dangerous way of looking at it. In the former plan the stocks, if worth above par, as they usually are, are steadily undervalued, while in this method they are overvalued, in all probability, during most of the time they are held. In one case there is a fallacious calculation of current earnings; in the other case, there is a fallacious estimate of surplus in reserve. The true principle would seem to be that each year or half year an equitable portion of the amount paid for premiums, or conversely, of the amount received for discount, should we wiped out, so that the differences between par and market value would steadily and gradually disappear as the bond approached its maturity. Thus, the ten-per cent. bond of which we spoke would be considered as earning each year, the rate to which its cost price would be equivalent when averaged over the term—say four and a-half per cent. The remaining five and a-half per cent. should not be considered as earnings, but as an offset to the depreciation of bond, or a refunding to us of extra premium, which we paid for an abnormally high rate of interest, and

while this is true in theory it can be empirically tested by the state of the market. It will be found that, making allowance for the shifting productiveness of money and some other disturbing element, such as public confidence, that the market price of a security will settle in about this manner: That each year there will be a depreciation, amounting approximately to the difference between the current rate of interest on that kind of securities and the revenue actually produced. We would therefore enunciate this formula for ascertaining the true earnings from stock investments. From the cash income (a) received subtract such part (b) of the premium, as will progressively consume the entire premium at the date of maturity. The difference is the current earnings (c).

Again, take the difference between the market value (d) at the beginning of the period, and the market value (e) at the close of the period. The difference between d and e is the gross depreciation (f), or the gross appreciation (—f).

Combining b, taken negatively, with f, or —f, we have the incidental or speculative loss or gain (p. or —p).

$$p = \times f - b.$$
$$-p = -f - b.$$

Thus there will be four cases.

First.—A gross depreciation equal to the amount of premium written off. Here there is no loss nor gain.

Second.—A depreciation greater than the amount of premium written off. Here there is an incidental loss to be taken from the surplus.

Third.—A gross depreciation less than the amount of premium written off. In this case there is an incidental gain or a real appreciation.

Fourth.—An appreciation which, together with the premium written off, is always an incidental gain.

Our examination of the functions of a Savings bank brings us to the conclusion that it is simply a money making corporation—an association of small capitalists who combine for the purpose of having their small investments possess an earning power by aggregation. The officers and employes of the Savings bank are merely their agents in this. The entire resources of the bank, whether credited to deposits or to surplus, are the absolute property of depositors as an association. The trustees are a body whose constitution is somewhat anomalous, being the unpaid custodians of money not their own, but whose duties are assumed as a public burden and as a distinction. This latter peculiarity, the constitution of a board of trustees, which is independent of the real proprietors of the concern, seems to me the

only point which gives a Savings bank, as now organized, a right to be called a benevolent institution. It is benevolent for the trustees to give their time and services without compensation in the management of the money of others. It is not benevolence, however, to invest a man's money and pay him over the proceeds. Although in practice, this plan of organization has worked better than the one where there is a body of stockholders whose capital is substituted for a surplus as guaranteed to depositors, yet it is by no means proved that the advantage would not be on the side of the latter form, which eliminates all pretense of benevolence, and makes the Savings bank what we believe it to be, a pure matter of business. Of the three forms of associated saving, viz., the mutual, which we have described at length, the stock, or business-like form, which we have just touched upon, and the governmental, which, of late years, is becoming the subject of experiment, time alone can decide which will survive as the fittest.

CHAPTER XIII.

HOW INVESTMENTS SHOULD BE MADE.

We shall devote this chapter to giving some of the rules relating to Savings banks' investments. The Legislatures of the several States have adopted regulations on this subject, thus lightening the responsibility of Savings bank directors. These regulations are the outcome of a conservative spirit, and should be observed. Nevertheless, a wide latitude exists, which cannot be completely traversed by Legislative regulation. To a very important degree the directors must exercise their own wisdom in making investments. The following remarks on this subject were made by Mr. Washington B. Williams at the annual meeting of the American Bankers' Association in 1882. They are worthy the attentive study of those who are entrusted with the duty of investing the funds of these institutions.

Safety is the first consideration, and profit is secondary. Again, Savings banks are not confined to investments which are readily convertible. Here, also, safety comes first; convertibility is of minor importance.

Mortgages on real estate, being less readily convertible than some other securities, bear higher interest. At the same time, no property is more stable in value, and none less likely to depreciate, than real estate. Neither the recent general depression from former inflated values, nor any special instances of loss, affect the truth of this general proposition.

Mortgages on real estate, accordingly, have always been a favorite kind of investment for Savings banks. They have other advantages, in not being readily subject to theft or misappropriation; and the laws of the several States, as well as the general rules by which courts govern and control trustees, declare this mode of investment to be the most desirable.

Taxes are high in this country, are thrown heavily on real estate, and are generally paramount to mortgages. To secure prompt payment of interest and taxes, the property mortgaged ought generally to be improved and productive of rent.

The Savings bank law of New York allows the investment of not over 60 per cent. of the deposits in such mortgages. That of New

Jersey allows 70 per cent., and these serve to indicate the general rule.

By examining the reports as to the Savings banks of the several States it will, however, be found that the Savings banks of New England invest not over 35 per cent. of their trust funds in mortgages, and those of New York City a less proportion.

The best conducted Savings bank in Jersey City, N. J., which has passed safely all the depressions and panics of thirty years, has generally maintained, and still maintains, its mortgage investments at over 65 per cent., of a deposit line of over $5,000,000.

These different usages, though they doubtless result from more than one cause, yet point with sufficient clearness to this important rule: Taxation should be so adjusted as in no wise to deter Savings banks from freely investing in mortgages on real estate. It is a most unwise policy as to the interests of the industrial classes to drive Savings banks out of this mode of investment. It is the mode which is at once solid in basis, understood by and acceptable to the depositors, and beneficial to them and the community where the savings arise, by re-distributing the savings in the form of loans. Such investments ought not to be taxed, even if it should become necessary to accord a special preference in this respect to Savings banks. These institutions represent the industry and frugality of the masses, and every effort should be made to put them on the soundest footing. In my belief, nothing can so surely do this, and so certainly retain confidence, as to encourage, facilitate and require the investment of the savings deposits in mortgages properly secured on the farms, the shops, and the homes of the people. If these are not real values, what are? How can mere promises to pay by the same people, either individually or collectively, be any better?

It is, then, to be regarded as a prime duty of legislators to so regulate taxation as to encourage, not deter, investments by Savings banks in loans on real estate.

A trustee should take no risks that can be avoided. If he acts on this rule, he is discharging his full duty. If he violates it, although from good motives, if he allows his confidence in his own skill in choosing among the many ordinary investments in the market to lead him to transcend it, he would be restrained by injunction by any court having jurisdiction of trusts, even if the particular investment were a successful one. High rates of interest are quite a secondary matter.

In order to avoid, then, as far as possible, all temptation to do more than one's duty, as trustee, or to manifest special financial skill, or to make the earning of interest paramount to absolute safety, we would adopt certain rules.

Large deposits, which do not come from savings, but which are the capital of persons who have acquired wealth, should be rejected.

They can invest their own funds, and they are likely to withdraw their deposits suddenly and in large sums.

Bonuses and discounts on buying securities should not be sought or allowed. They tend to drive away the best-secured loans, and to introduce a speculative habit of looking at the immediate apparent gain rather than the ultimate security.

Good mortgages on improved real estate, to about half its value, should be encouraged and granted up to the highest legal limit, without fear. If necessary, the rate of interest on these should be reduced, so as to secure the very best of that class of investments.

Would this be safe in case of a run on the bank?

It would for several reasons:

First.—The remaining 35 per cent. and upwards of convertible securities would be available.

Second.—Such mortgages, though not properly available at par, are always excellent securities to borrow on temporarily to meet such emergencies.

Third.—The mortgage-investments being to a large extent loans among the same community which affords the depositors, there is a powerful influence at work to sustain confidence in the assets of the bank.

But, as a further means of safety to all, the bank should never hesitate, in case of panic, to enforce its thirty, sixty or ninety day rule, as the case may be, or to close its doors. It is nothing but the common agent or trustee of the depositors, who, as above shown, have a common interest in its funds and investments. It has no financial reputation to keep up as a source of profit to itself or to attract deposits. Its whole duty is summed up in the one word "safety."

A trustee has neither moral nor legal right to sacrifice a part of the common assets in order to give an advantage to those of the common proprietors who first run to his door. A court having jurisdiction of trusts would restrain him by injunction from thus violating his prime duty of taking care of the common property for the common benefit. Some special charters of Savings banks expressly provide for such action. I think the power and duty of the courts plainly arises out of the nature of the trust. But to avoid all question it should be provided for by proper legislation wherever this ordinary class of Savings banks exists.

The salutary effect of such judicial action is at once apparent. The bank stands in this emergency like any other trustee who seeks the direction and protection of the courts.

They will stop any ill-advised suits, hold back every hostile hand, and open the doors again and direct payment by installments if prudence so indicates. This is the best and safest way for real savings depositors, and meets all their actual needs in the supposed case of a panic. In the meantime, the assets are producing their regular in-

come, there are no sacrifices of securities, the ignorant and alarmed depositors are protected against loss, and none gets an advantage over the other, and the bank finally resumes without injury.

Too much unwillingness to adopt this safe and just course, if it becomes necessary, would savor of a desire to do more than the duty of a trustee; a course neither incumbent, nor, indeed, justifiable.

As a corollary to this view, would come the rule of giving all due publicity to the affairs and investments of the bank, at least as to its class and kind of investments and their amounts. Inquiry was recently made of a Savings bank in the City of New York for a statement of this character, such as is made public in many banks, and is required by law once or twice a year in some States. The answer given was, that that bank made no such statements, and that the names of its trustees were sufficient guarantees to the public of its soundness and good management. I need not say that such views are contrary to the true position and office of a Savings Bank.

Investments in expensive buildings should be avoided. In many cases, the whole apparent surplus will be found to be absorbed in an unproductive banking-house.

Government bonds are the safest of convertible investments, and so are generally the bonds of the State in which the bank is situated. They may be guarded against the ordinary chances of fire and theft by well known precautions, such as registry, stamping, etc., but the low rate of interest which they must henceforth produce renders it very desirable to see if the field can be extended without losing sight of our cardinal rules.

It must be conceded that personal security of two or more names is not admissible, notwithstanding the custom of many New England Savings banks to accept such security. Not only is this usage entirely opposed to the general law of trusts as established by the experience of two centuries, but it leads to complications and temptations outside of the line of duty which directors of a Savings bank ought to confine themselves to.

Stocks of railway and manufacturing corporations must also be excluded. In fact, railway management, as to treatment of stockholders and value of stock, is now almost synonymous with deception and fraud. If there are exceptions, they serve to establish the general rule.

As to other corporations, the value of their stock depends so much on the changing market, on the course of mechanical invention, on the individual qualities of the managers, that it is too unstable for our present purpose.

Railway bonds, secured by first mortgage on the entire road, would seem a safe class of investment with the exercise of ordinary prudence, and at one time were largely taken by some Savings banks. So vast and so constantly increasing are these great internal

improvements, so enormous the flow and reflow of business over them, so immense the probable development of that business in the future, that such mortgages, if they could be had at a proper rate per mile, would be among the safest of investments, assuming reasonable care in selecting those of apparently permanent value. There is difficulty in ascertaining the history, legal position and amount of such mortgages, but not so great as to be insurmountable. The great objection is to the extravagant amount per mile of the bonds issued in many cases, compelling after a while the bondholders to take the road. It is always an undesirable thing for a trustee to be compelled to enter into a current business with the trust funds.

Municipal indebtedness has attained large proportions in this country, and has long furnished a field for private and corporate investment. Experience has fully shown that we must strike out from the list of Savings bank investments all municipal bonds issued in aid of any railway undertaking. The Legislatures of several States have recognized this, and after once allowing such investments by Savings banks have very judiciously forbidden them.

Subject to this exception, the public debt of local municipalities within the State where the Savings bank is located, is a sound class of investment, assuming, of course, the exercise of due care in the investigation of the origin and aggregate amount of such debt. You have the savings of many voters in your care. If invested in apparently sound municipal obligations, there is, besides legal remedies, a great force of public opinion to sustain your claim, and to bring about proper provision for payment of interest and principal. Experience shows that such debts, when not disproportionately large, or the result of some arbitrary and unpopular scheme, have been among the safest investments we have had.

It is evident that we must look elsewhere than to Government bonds alone for interest paying securities. The directions to look in are (1) mortgages on productive real estate to a high percentage of the total investments; (2) well selected municipal obligations; (3) selected railway first mortgages.

Those to avoid are (1) real estate of merely speculative value, and unimproved; (2) capital stock of railways or manufacturing corporations; (3) personal security; (4) railway aid bonds, and municipal bonds where the debt is large in proportion to the resources, or is the result of too sanguine speculation on the future.

Call-loans on deposit of collaterals form a large part of the business of some city Savings banks. No doubt, in a large commercial center, these may be safely and quickly made. The objection to them is that they tend to throw the whole management and selection of investments into the hands of some one person. However efficient such management may be for a time, we know that most great disasters have also arisen from this. Other investments, such

as mortgage loans, or the purchase of securities, are usually, in well-managed banks, passed upon by a board or committee. This old-fogy method is the safest, and so far as practicable should be followed by institutions whose paramount object is safety.*

Some New England and other Savings banks have loaned funds on mortgages on lands in other States. There is no reason why such loans on suitable and proper security should not be as good and safe in Massachusetts as in New York; but there is a great difficulty in being assured that you are getting proper security. At home your own board or your own investment committee can judge, depositors are more or less familiar with your securities, the risk of acting on other men's judgment removed from your own responsibility is avoided, your risk is less, your certainty of protection by the courts is greater. Prudence dictates that even in these days of easy locomotion and of assimilating business and values, you should not extend your reach too far and get beyond the range of your own vision and your own capacity to judge and act. It may be the office of a good judge to enlarge his jurisdiction, but it is not the duty of a prudent trustee.

The same reasons will apply to distant municipal and railway securities. And caution should be exercised in going beyond your own State as to any debt of local municipalities. My own view is that this should be prohibited, except, perhaps, in certain cases, such as well-known large cities whose affairs are conducted on a sound basis, and with the advantage of the best business talent. This is true of Boston, New York, Philadelphia and others, and is not affected by the fact that they have also been now and then attacked by municipal thieves.

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*A startling instance of the danger of this call-loan method has recently occurred in the Newark Savings Institution now insolvent.

CHAPTER XIV.

THE SMALL SAVINGS BANK.

The methods of bookkeeping and daily routine which we have described are such as are adapted to use in institutions of considerable size and importance, and which involve the principles that necessarily govern the methods of the very largest. It was thought better to furnish a very complete scheme from which smaller institutions could select so much as suited their requirements, than to cut down the plan to what would be insufficient for more extended business.

It is advisable to keep in view the expansion of business which is always hoped for and generally is realized in such an institution,

CASH BOOK AND JOURNAL.

FORM 385.

Withdrawn	Folio	Book No.	NAMES	Folio	Deposits

ANOTHER FORM OF CASH BOOK AND JOURNAL.

Dr. 189 *Cr.*

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Book No.	Savings	Fol.	ITEMS	Fol.	Individual	General	Book No.	Savings	Fol.	ITEMS	Fol.	Individual	General

and keep rather in advance of, than behind, present needs. Regard should be had, also, to the chances which the location and surroundings present for growth.

We will now consider what is the minimum of bookkeeping machinery for a savings bank beginning its business in a modest way, without expectation of any very rapid growth. Usually one man will at first perform all its clerical work and things must be made as compact as possible for him, without loss of clearness.

I think that the necessary books cannot, with safety, be reduced below the following list: Cash Book, Ledger (Investments and General) Depositors' Ledger, Signature Book, Minute Book, and Report Book, and that the system of tickets or documents relating to each transaction should be inaugurated from the first.

The Cash Book may be used for depositors' receipts and payments as well as for those relating to investments, etc. Using double columns on each side, the receipts would be inserted in the left-hand column, and the daily total in the right hand, thus:

"Received from Depositors.

23.	J. Smith	$ 5 00
39.	P. Robinson	10 00
65.	J. Wilkins	20 00
	Total for day	$35 00"

Similarly, the payments to depositors would be entered in the credit columns.

The Cash Book when kept in this simple form should be balanced daily in ink, and a statement of the components of the cash-balance should be recorded.

The Cash Book would probably be posted daily. An exception, however, might be made of the transactions with depositors which would if posted daily make the Depositors' account in the Ledger too voluminous. To avoid this, at the close of each month's cash entries, take a double page and head one side "Received from Depositors, January, 1899," and the other "Paid to Depositors, January, 1899." Then the total may be posted in one sum on each side of the ledger. This is not merely to save time and space, but to make the account more comprehensive and graphic. A comparison of this month's business with that of the same month a year ago is instructive; much more so than comparing two days.

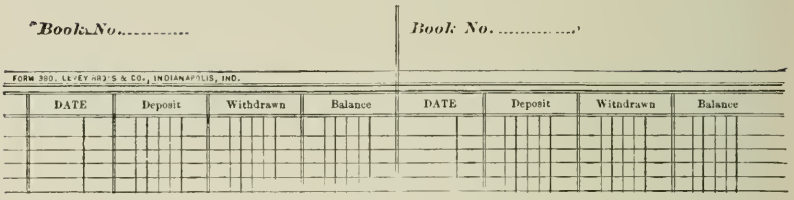
The journal requires very little space and we should recommend setting aside a few pages in the Cash Book at the beginning of each six months for the few journal entries which will be required. Interest to depositors may be credited through a journal entry in extenso.

The Depositors' Ledger is the next book to be considered. I would recommend the three-column ledger from the start, debits, credits and balance, as already explained, and would post from the tickets, verifying by the cash-book. A caution may be in place as to the size of the ledger. For a small institution, which will grow slowly, 5,000 accounts make too large a book; 2,000 or 2,500 would be better.

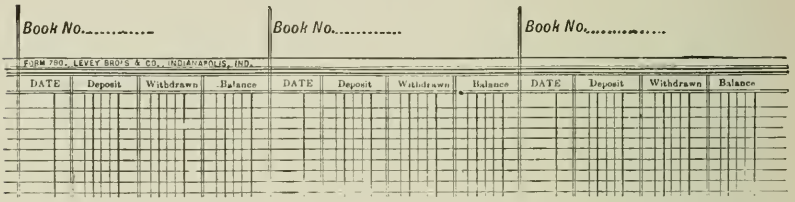
Of course a trial balance should be taken, just as frequently and just as vigorously as in a large bank. Until such time as it requires a separate book, it should be copied into the Report Book, which is intended to receive all statements relating to the condition of the Bank.

SAVINGS DEPOSITORS' LEDGER.

TWO ACCOUNTS TO A PAGE.



THREE ACCOUNTS TO A PAGE.



The Ledger proper, or General Ledger (as distinguished from the Depositors' Ledger which is subordinate to it), will probably contain the following accounts:

Cash; this may be dispensed with and the cash book considered as taking its place.

Depositors; showing the aggregate transactions with them.

Mortgage No.——
Mortgage No.——
——Bonds.
——Bonds.
Loan to——

} An account for each separate investment.

Interest; showing income or earnings.

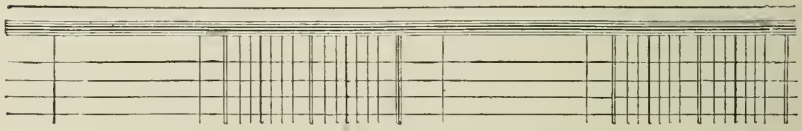
Expense.

Interest-Dividends; which should be kept separate from earnings.

Surplus.

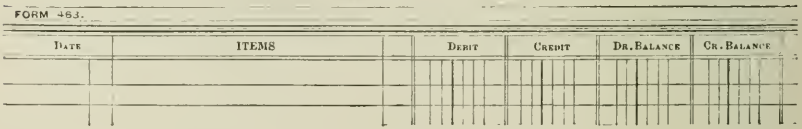
GENERAL LEDGER FOR A SAVINGS BANK.

FORM 368.



ANOTHER FORM OF GENERAL LEDGER.

FORM 463.



This ledger may be in the usual mercantile form, but I would recommend that the left-hand page only be used for the account, the right-hand, with horizontal rulings only, being reserved for description. Thus, for example, opposite the account representing a mortgage may be a diagram of the property, the names of bondsmen and owners, details of insurance, taxes, valuation, and all information which may be of use.

The Minute Book and Signature Book will not differ from those used in larger banks.

[LEFT PAGE.] SIGNATURE BOOK FOR SAVINGS BANKS.

FORM 387

DATE		Number	SIGNATURE	NAME WRITTEN BY TELLER	RESIDENCE
		75			
		76			
		77			

[RIGHT PAGE.]

OCCUPATION	WHERE BORN	When Born			PARENTS	REMARKS
		Month	Day	Year		

The Report Book should contain all financial statements. If the Treasurer or Secretary makes a monthly report to the Board, it should be copied here. All Trial Balances of the General and Depositors' Ledgers, all Balance Sheets, a summary of all reports and statements made to the public authorities, should find place in the Report Book.

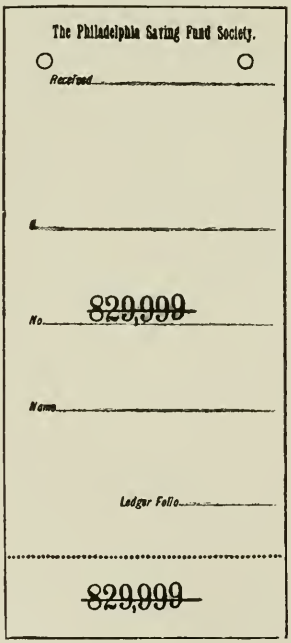
Commencing with the few and simple books here described, the need of more elaborate methods will be felt when the transactions become more numerous and the keeping record of them more complex. The first point of departure will be to separate the receipts and payments to Depositors, from the other transactions and enter in the General Cash Book only daily totals. Then as the investments become more extended other subsidiary ledgers will be required, such as Mortgage Ledger, Security Ledger, upon the introduction of which the accounts in the General Ledger will become group-accounts, all mortgages being treated, for example, as a unit and the details of any particular mortgage being found in the Mortgage Ledger.

We have given ample details of the forms required by larger institutions and these will gradually be required as the little savings bank grows up to them.

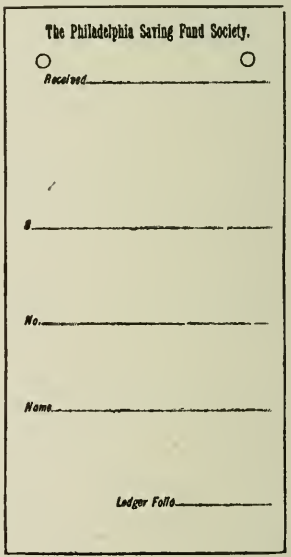
CHAPTER XV.

ON MAKING AND WITHDRAWING DEPOSITS IN A LARGE SAVINGS BANK.

The Philadelphia Savings Fund Society has more than 171,000 depositors and $41,000,000 of deposits. It is believed that a description of the mode of making deposits in this institution, and of withdrawing them will possess both interest and value. One of the points to be noticed in the following description is the verification of the work.



PINK SLIP "A."



WHITE SLIP "B."

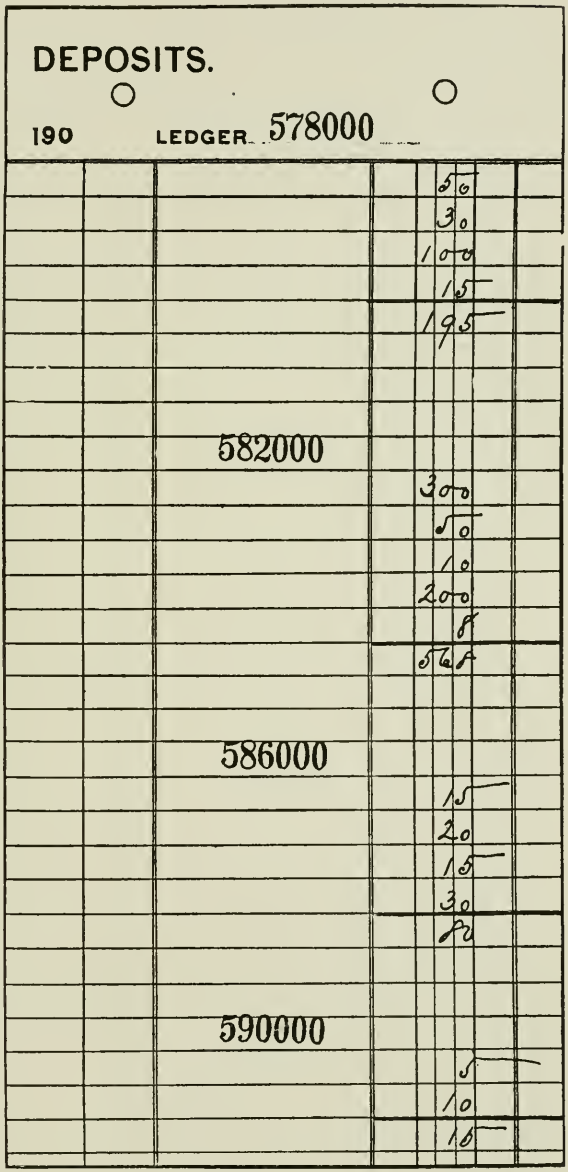
This great care is taken to guard against errors. It also serves another most important purpose of rendering wrongdoing more difficult. Commanding its own time in making and withholding de-

posits, it is practicable to devise and apply all the checks here described to insure and preserve the utmost accuracy in its work.

NEW ACCOUNT.

The deposit is made to the receiving teller who notes the amount received on a pink numbered slip (A), and attached is a corresponding numbered coupon which is handed to the depositor, who is directed to the Register Desk where the coupon is presented and filed. Opposite a like number in the Register, the depositor is requested to sign his or her name (and if unable to write, a mark is made to represent the depositor's signature) when the Register Clerk takes the address, occupation or business, and nativity.

From the number and name of the depositor in the Register, a pass book is issued and the pink slip (A) is completed by writing thereon the name. The amount paid is copied from the pink slip (A) into the pass book and



SLIP "C."

from this into the receiving teller's Cash Book, in which is also recorded the number and initials of the depositor.

In the meantime the depositor has been directed from the register to the desk where books are given out after depositing. The clerk calls the name and asks the amount deposited, when the depositor responds, naming the amount paid, obtains his pass book, which completes the transaction, and leaves the office.

All pink (A) and white (B) slips for the day are checked back to the receiving teller's Cash Book.

CREDIT POSTING.

The pink (A) and white (B) deposit slips, the former representing a new account, the latter an active account, are arranged in numerical order and divided among the bookkeepers, who post to the individual Deposit Ledgers, note the ledger folio on the slips (A or B) and copy the amount posted to slip "C," which represents a repetition, divided in numerical order of the Individual Deposit Ledgers and the total amount for each ledger transferred to its respective individual account in the Intermediate Ledger.

VERIFICATION OF THE CREDIT POSTINGS.

The pink (A) and white (B) deposit slips, continued in numerical order, are taken by the verifying clerks, who enter the number of the account and the name of depositor in a book called "Deposits." After the entries for the day are completed, verification of the postings is made by calling off separately the number of each account entered, which account is referred to in the Individual Deposit Ledger, and if both names correspond, the amount posted by the bookkeeper is called out and placed in the book "Deposits," and when completed for the day, are checked back by the slips "A" and "B."

The book "Deposits" is ruled and an extension made in an outer column of the total amount posted to each Individual Deposit Ledger and compared with the Intermediate Ledger postings, which have been taken from slips "C."

At the end of each day the total amount received from depositors is entered in the General Cash Book, and at the end of the month the total amount received during the month is posted to the General Ledger.

CARD INDEX.

The Card Index, which is arranged in alphabetical order, contains on a separate card the name and number of each depositor; also the date of the first deposit.

INDEX CARD

NAME	*Benjamin Franklin,*	NUMBER 12345
ADDRESS	*3220 Arch Street,*	
FIRST DEPOSIT DATE	*January 10, 1900.*	AMOUNT, $26.00

CLOSED ACCOUNT.

When a notice is given for the payment of the full amount on deposit, the pass book is left at the office for settlement. For this account the Individual Deposit Ledger is referred to; the pass book is balanced and a receipt is made out for the full amount on deposit.

At the expiration of the two weeks' notice, an application is made by the depositor for payment, when his signature is taken on the receipt and compared with the one on the register (and if unable to write the depositor is identified by means of original address, occupation, business and nativity given), which was written by the depositor when the first deposit was made, and if identical, the amount is charged in the pass book, the stub of the receipt is detached, and the depositor is directed to the paying teller, from whom payment is obtained on the surrender of the pass book and receipt.

The amount paid a depositor, also the name and number, is copied from the receipt to the paying teller's Cash Book, and all receipts for the day checked back to the Cash Book.

$ _____
Date _____
Name, _____
No. _____

$ _____ Philadelphia _____ 190

Received from The Philadelphia Saving Fund Society,

_____ Dollars

_____ of moneys standing to my credit on Deposit Book

No. _____ PAYABLE ONLY TO-DAY AT DESK No. 3.

RECEIPT "D."

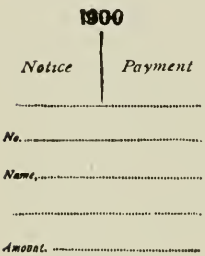
DEBIT POSTING.

The receipts (D) are arranged in numerical order and divided among the bookkeepers who post to the Individual Deposit Ledgers from the face of the receipt, noting thereon the ledger folio; if full payment is made, the accrued interest, if any is due the depositor, is

credited and the account ruled closed. The amount posted is also copied to slip "E," which represents a repetition, divided in order of the Individual Deposit Ledgers, and the total amount for each ledger transferred to its respective individual account in the Intermediate Ledger.

VERIFICATION OF THE DEBIT POSTINGS.

The receipts are continued in numerical order and taken by the verifying clerks who enter the number of the account and the name of the depositor in a book called "Payments." After the entries for the day are completed, verification of the postings is made by calling off separately the number of each account, which is referred to in the Individual Deposit Ledger, and if the names correspond, the amount posted by the bookkeeper is called out and placed in the book "Payments," and when completed for the day, is checked back by the stubs arranged in numerical order detached from the receipts (D).



BACK "D."

If the depositor should forget to obtain the money, there is left a stub without a receipt.

The book "Payments" is ruled and an extension is made in an outer column of the total amount posted to each Individual Deposit Ledger, and is compared with the Intermediate Ledger postings which have been taken from slips "E."

At the end of each day the total amount paid to depositors is entered in the General Cash Book, and at the end of the month the total amount paid during the month is posted to the General Ledger.

CARD INDEX.

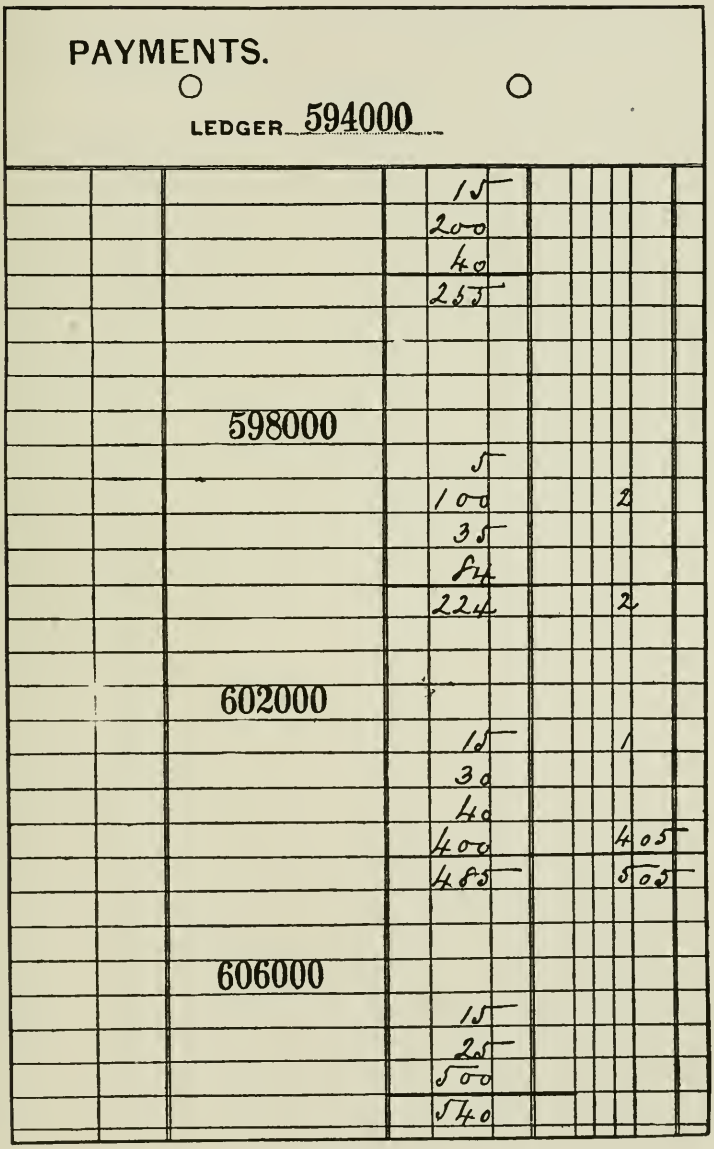
Referring to the Card Index which contains active accounts, the card bearing both the name and number of the depositor is eliminated and placed in alphabetical order in the Card Index of Closed Accounts, with the date of closing stamped thereon.

DEPOSIT TO ACTIVE ACCOUNT.

A deposit to an active account is made to the receiving teller, who notes the amount received on a white slip (B).

The amount deposited is entered in the depositor's pass book, and a corresponding amount is placed in the receiving teller's Cash Book, which also contains number of the account and initials of the depositor. In the meantime the depositor has been directed to the desk where books are given out after depositing. The clerk records

the number and name of the depositor on slip "B" when he calls the name, asks the amount deposited and the depositor responds naming the amount paid in.



SLIP "E."

All pink (A) and white (B) deposit slips for the day are checked back to the receiving teller's Cash Book.

PARTIAL PAYMENTS.

In giving notice for a partial payment, the pass book is either presented at the office and the amount wanted stated, or notice is sent by mail, giving the number of the pass book, the name of the depositor and the amount to be withdrawn.

A receipt is prepared showing the amount the depositor wishes to withdraw.

For the account the Individual Deposit Ledger is referred to and examined in order to ascertain the amount standing to the credit of the depositor.

At the expiration of the two weeks' notice, application is made by the depositor for payment, when his signature is taken on the receipt and compared with the one on the register (and if unable to write, the depositor is identified by means of original address, occupation, business and nativity given), which was written by the depositor when the first deposit was made, and if identical, the amount is charged in the pass book and the depositor is directed to the paying teller from whom payment is obtained on the production of the pass book and surrender of the receipt.

The amount paid the depositor, also the name and number, is copied from the receipt to the paying teller's Cash Book and all receipts for the day are checked back to the Cash Book.

PART III.

CLEARING HOUSES.

CHAPTER I.

ORIGIN AND UTILITY OF THE CLEARING-HOUSE.

Closely connected with the general subject of banking is that of the clearing-house. This is a comparatively modern institution, the Edinburgh bankers claiming the credit of establishing the first one. The earliest of whose transactions we have any record, however, is that of London, founded in 1775, or earlier, and of this little was known to the public until it began to publish regular statements of its transactions, May 1st, 1867. The literature on the subject is almost wholly the creation of the last forty years. Works on banking and political economy, of an earlier date than this, rarely, if ever, notice the subject at all. For more than three-quarters of a century after its establishment the London clearing-house and that of Edinburgh remained the only organizations of the kind known to exist. The monetary systems of most European States, centering around a single great bank, located at the capital of each, found in this a means of effecting mercantile settlements. Furthermore, the use of bank checks in making payments, which chiefly creates the need of the bankers' clearing-house, has in recent years attained a development previously unknown. The growth of American banking, decentralized and distributed among many banks, and the increasing use of bank checks as a means of payment, gave birth to the next clearing-house in the order of time after that of London. The New York clearing-house was established in 1853, from which date the growth of the clearing-house system in the United States has been stupendous. Boston followed in 1856; Philadelphia, Baltimore and Cleveland in 1858; Worcester in 1861; Chicago in 1865, all the others are of later date. At present there are seventy-eight clearing-houses in the United States, and the aggregate clearings for the year ending with September, 1897, were $54,030,253,695. The economy of the system may be seen from looking at a few figures. On July 1, 1896, the total clearings from sixty-six of the seventy-eight clearing-house associations in the United States were $227,935,464. The balances of these clearings were $19,152,834, or less than 12 per cent. of the aggregate amount. This balance was thus composed:

Gold	$1,325,015
Gold clearing-house certificates	265,000
Silver and silver certificates	175,950
United States notes	3,451,761
Currency	1,017,101
Currency certificates	5,785,000
National bank notes	31,746
Exchanges	3,088,299
Managers' certificates	3,904,904
Collections by creditor from debtor bank	85,930
Not stated	22,128
Total	$19,152,834

Deducting the last four items, the amount of gold and silver, and various substitutes for money, used to make settlements, was $12,051,573, or a little more than 5 per cent.

These facts, which are derived from the report of the Controller of the Currency for 1896, show what a very small amount of money is needed to effect settlements through the clearing-house. The following table, taken from the same source, shows these details in another form. "In some cases," as remarked in the report, "balances due by debtor banks are paid in gold coin, silver coin, or paper currency to the manager of the clearing-house, who disburses this money to the creditor bank. The extent to which this practice prevailed is shown in columns headed 'gold,' 'silver,' and 'paper currency,' respectively. Again, the debtor banks settle their balances by paying part in money and part in drafts on their correspondent banks to the clearing-house manager, who remits the currency and drafts to a correspondent bank and gives his drafts on such bank to the creditor banks for amounts due to them.

"In other cases, no money or drafts are handled by the clearing houses, but it is the custom for the clearing-house manager to certify the amount due to or due from each bank and the manner in which this certificate or order of the manager is settled by the debtor bank is not uniform. In a few instances the manager's certificate or order is not presented to the debtor bank for payment, but is held by the creditor bank until needed to settle an adverse balance. As a general thing, however, the order is presented to the debtor bank for payment either in currency or by drafts drawn by the debtor bank upon a correspondent bank in New York, Chicago, St. Louis, or some other city, as may be agreed between the creditor and debtor banks. The extent to which settlements are made by manager's certificates or orders is shown in columns headed 'Collections from debtor banks,' 'Exchanges,' 'Manager's checks or orders.' To a large extent and in some of the largest cities balances are habitually settled by exchange on correspondent banks in neighboring or distant cities, and no money passes between the debtor and creditor banks in such cases."

CLEARINGS AND BALANCES OF THE CLEARING-HOUSE ASSOCIATIONS ON JULY 1, 1896.

Location of Association.	Clearings.	Balances.			
		Gold.*	Silver.†	Paper currency.	Collections from debt'r banks.
Maine	$305,892				$23,653
Massachusetts	19,400,160		$16	$789,125	
Rhode Island	853,042				
Connecticut	888,052				
Total	21,447,146		16	789,125	23,653
New York	139,849,413	$145,000		6,965,843	
Pennsylvania	15,832,025	120,000		1,968,060	
Maryland	3,802,490	748,467			
District of Columbia	425,561		154,667	1,500	
Total	159,909,489	1,013,467	154,667	8,935,403	
Virginia	132,915			10,713	
Georgia	578,698			2,688	42,471
Florida	35,136				
Alabama	48,242				
Louisiana	1,479,529				
Texas	1,210,585				
Kentucky	1,343,714				
Tennessee	325,728				
Total	5,154,547			13,401	42,471
Ohio	5,341,796		5,524	44,780	
Illinois	23,329,662	5,000	2,442	398,220	19,806
Michigan	80,061				
Wisconsin	984,440	11,380	4,324	13,375	
Minnesota	2,295,181	131,000	8,951	79,255	
Iowa	136,523				
Kansas	67,418			7,797	
Nebraska	5,259,577				
Total	37,494,658	147,380	21,241	543,427	19,806
Oregon	193,423	69,345			
Colorado	319,734				
Utah	192,437				
Montana	71,449	40,000		4,252	
Washington	297,125	35,127	10		
California	2,855,456	284,696	16		
Total	3,929,624	429,168	26	4,252	
The United States	227,935,464	1,590,015	175,950	10,285,608	85,930

* Includes United States and Clearing-House gold certificates.

† Includes silver certificates.

CLEARINGS AND BALANCES OF THE CLEARING-HOUSE ASSOCIATIONS ON JULY 1, 1896.—Continued.

Location of Associations.	Balances.			Percentage of balance to clearing.	Percentage of balances settled by credit instruments.	Percentage of balances settled in money.
	Exchanges	Managers' checks or orders.	Total balances.			
Main	.....	.....	$23,653	7.7	100.0	....
Massachusetts	$234,408	$1,965,994	2,989,543	15.4	73.6	26.4
Rhode Island	209,424	....	209,424	24 5	100.0	.....
Connecticut	251,331	.....	251,331	28.3	100.0	.....
Total	695,163	1,965,994	3,473,951	16.2	77.3	22.7
New York	179,109	.....	7,289,952	5.2	2 4	97.6
Pennsylvania	24,000	55,460	2,167,520	13.6	3.6	96 4
Maryland	.....	.....	748,467	19.6	.....	100 0
District of Columbia	.....	.....	156,167	36.9	....	100.0
Total	203,109	55,460	10,362,106	6.5	2.5	97.5
Virginia	17,584	.....	28,297	12.2	62.1	37.9
Georgia	.....	83,241	128,400	22.1	64 8	35.2
Florida	.....	8,712	8,712	24 7	100.0	.....
Alabama	.....	5,570	5,570	11.5	100.0	.....
Louisiana	.....	135,171	135,171	9.1	100.0	.....
Texas	.....	*43,875	43,875	.....	100 0	....
Kentucky	.....	218,356	218,356	16 2	100.0	.....
Tennessee	.....	173,685	173,685	53.3	100.0	.....
Total	17,584	668,610	742,066	14.4	98 1	1.9
Ohio	7,683	385,987	443,974	8 3	88.6	11.4
Illinois	1,815,543	.....	2,241,011	9.6	81 0	19 0
Michigan	13,375	.....	13,375	16.7	100.0	.....
Wisconsin	113,016	.....	142,095	14.4	79.3	20.7
Minnesota	222,826	.....	442,032	19.2	50 4	49 6
Iowa	.....	44,120	44,120	32.3	100.0	.....
Kansas	.....	.....	7,797	11 5	.....	100 0
Nebraska	.....	716,664	716,664	13.6	100.0	....
Total	2,172,443	1,146,771	4,051,068	10.8	82.4	17.6
Oregon	.....	.....	69,345	35.6		100.0
Colorado	.....	21,358	21,358	6.6	100 0	.....
Utah	.....	33,467	33,467	17.3	100.0	.....
Montana	.....	.....	44,252	61 7	....	100.0
Washington	.....	35,372	70,509	23.6	50.1	49.9
California	.....	.....	284,712	10.0	.....	100.0
Total	.....	90,197	523,643	13.3	17.2	82.8
The United States	3,088,299	3,927,032	19,152,834	8.4	36.5	63.5

*Includes $22,128, character not reported.

The clearing-house is, therefore, one of the most useful agencies called into being by the wants of modern commerce. It is among the most interesting features of our financial mechanism and well worthy of careful study. Susceptible of almost indefinite expansion, the clearing system in its various forms holds in possibility the solution of problems which have long engaged the attention of thinkers.

A glance at some of the more common banking operations will suffice to show the need of a clearing-house wherever any considerable number of banks are located in the same vicinity. Mercantile establishments are constantly receiving in the course of business not only specie, but usually, to a much larger extent, bank notes, checks, drafts, or other mercantile paper. To present this paper at the counters of the various banks at which it is payable would take a great deal of time. The dealer, therefore, deposits it in the bank with which he keeps his account, where, either at once, or at latest when collected, the amount is placed to his credit and goes to swell his balance. This is the usual way in which a bank receives the paper payable at other banks. It may also be taken in payment of notes payable at the bank receiving it. Although bank notes, as well as the various kinds of mercantile paper, are so received, yet the great bulk of all such receipts, especially in the large cities, consists of checks. When the paper in question is payable at the bank receiving it, the transaction is closed by the simple delivery in the case of bank notes, and in the case of checks by charging them to the drawer, the result being, in the latter case, a simple transfer on the books of the bank from the account of the drawer to that of the drawee. Where most of the transactions of a community center in a single institution, as formerly in the case of the Bank of England, and at present in the case of the Bank of France, the larger part of the check transactions may be settled in this way. To make provision for this class of business, the Bank of France furnishes special books of red colored checks—so-called, "bons de virement rouge"—the object of which is to enable payments to be made by their means to other persons also having an account at the bank without its being possible for any one unlawfully to obtain value for them, since they only operate as orders to the bank to transfer such an amount from the drawer's account to some other account on the books of the bank, and never as vouchers for the withdrawal of funds from the establishment. The Bank of England furnishes no account of its clearing transactions, but they must be a much smaller proportion of the total than those of the Bank of France, banking being less centralized in London than in Paris.

In this country no one bank concentrates in itself the larger portion of the business. Free banking and competition keep the banks more nearly on an equality. The larger part of the checks received by any bank, in the course of business, are likely to be drawn on some other bank, of which they must be collected by the receiving bank. As

business increases in any locality, each bank is likely to have a larger number and amount of demands upon most of the other banks in the place, and they eventually become too large and numerous to be conveniently settled between the individual banks. Before the establishment of a clearing-house in this country this method was pursued in New York long after the inconvenience became so great that it would now be considered quite intolerable. Mr. J. S. Gibbons, in his very interesting and instructive book, "The Banks of New York and the Panic of 1857," gives the following graphic description of the difficulties attending this mode of settlement:

"During the few years following 1849 the number of banks in New York was increased from twenty-four to sixty. To make the daily exchange, one-half of them must necessarily send to the other half. But this plain division of the service was not convenient or economical. It was found better for all of them to do a part of the distribution, and thus the whole sixty porters were in motion at the same time. Each carried a book of entry, and the money for every bank on which he called. The paying teller of the receiving bank took the exchange and entered it on the credit side of the book; then he entered on the debit side the return exchange and gave it with the book to the porter, who hastened to the next bank in his circuit. The porters crossed and recrossed each other's footsteps constantly; they often met in companies of five or six at the same counter, and retarded each other, and they were fortunate to reach their respective banks at the end of one or two hours. This threw the counting of the exchange into the middle and after part of the day, when the other business of the bank was becoming urgent.

"Instead of attempting a daily adjustment of accounts, which would have consumed several hours and caused much annoyance. It became a tacit agreement that a weekly settlement of balances should be made after the exchange of Friday morning, and that intermediate draft drawing should be suspended. The weaker and more speculative banks took advantage of this by borrowing money on Thursday, which restored their accounts for Friday, and its return on Saturday threw them again into the debit column. In this way the banks distant from Wall street managed to carry an inflated line of discounts, based on debts due to other institutions. It became an affair of cunning management by some to run a small credit of two or three thousand dollars each with thirty or more banks, making a total of one hunder thousand dollars, on which they discounted bills. Consequently, the Friday settlements proved to be no settlements at all, but a prodigious annoyance. As soon as the paying teller or his assistant completed the exchange balance list the cashier of each bank would draw checks for every debt due to him by other banks, and send out the porters to collect them. A draft on one in favor of another might settle two accounts at once, but there was no understanding that

made it possible to secure that small economy; or, if there was, it was disregarded. The sixty porters were out all at once, with an aggregate of two or three hundred bank drafts in their pockets, balking each other, drawing specie at some places and depositing it in others, and the whole process was one of confusion, disputes, and unavoidable blunders, of which no description could give an exact impression.

"After all the draft-drawing was over came the settlement of the Wall street porters among themselves. A Porter's Exchange was held on the steps of one of the Wall street banks, at which they accounted to each other for what had been done during the day. Thomas had left a bag of specie at John's bank to settle a balance which was due from William's bank to Robert's; but Robert's bank owed twice as much to John's. What had become of that? Then Alexander owed Robert also, and William was indebted to Alexander. Peter then said that he had paid Robert by a draft from James, which he, James, had received from Alfred on Alexander's account. That, however, had settled only half the debt. A quarter of the remainder was canceled by a bag of coin which Samuel had handed over to Joseph, and he had transferred to David. It is entirely safe to say that the presidents and cashiers of the banks themselves could not have untangled this medley. Each porter had his tally, and by checking off and liberating first one, whose account was least complicated, and then another, they finally achieved a settlement.

"This scene was re-enacted on every Friday. In consequence of the porters being withdrawn from their regular service in the bank, extra labor was imposed on others, responsibilities became mingled together, and the officers were kept for the whole day in a state of distraction and anxiety. The paying tellers were subject to frequent interruption, as they were obliged to receive and deliver all specie.

"Not the least irritating feature of the case was that a single small draft by any one bank on any other induced a general drawing, and all became involved in commotion and 'war' upon each other. If time were allowed, the debtor banks would finally be obliged to pay the liquidating balance; but 3 o'clock arrested the process, and the banks where the demand was then in force were obliged to disburse the coin. It was not unusual for a debtor bank to add fifty thousand dollars to its specie at the close of the day, with its debt doubled, while a creditor bank to half a million in the general account, would find itself at 3 o'clock depleted of one or two hundred thousand dollars in coin."

This, it will be noticed, was when the bank settlements at New York could not have reached to one-sixth of their present amount. It may be safely affirmed that the vastly larger transactions of the present day could not be settled in the old way. It was not until after much deliberation and considerable opposition that a clearing-house was established at New York, but the success of the experiment soon dispelled all doubts of its utility and necessity, and led to the adoption of the system in other cities.

The magnitude of the transactions of the clearing-houses in the United States is shown by the following table:

STATEMENT OF THE EXCHANGES OF THE CLEARING-HOUSES OF THE UNITED STATES FOR OCTOBER, 1897.

CLEARING-HOUSE.	1897.	CLEARING-HOUSE.	1897.
New York	$3,336,060,361	Springfield, Mass.	$6,034,443
Boston	476,187,068	Worcester	6,986,671
Chicago	451,430,188	Portland, Me	6,596,240
Philadelphia	304,579,410	Norfolk	4,652,523
St. Louis	123,005,403	Tacoma	3,495,927
San Francisco	74,231,337	Lowell	3,393,290
Baltimore	70,755,657	Grand Rapids	3,713,699
Pittsburg	74,205,453	Sioux City	3,678,008
Cincinnati	55,491,100	Syracuse	4,479,618
Galveston	17,949,850	Seattle.	3,876,954
Kansas City	50,491,337	Los Angeles.	6,174,482
New Orleans	33,374,496	Wilmington.	3,208,959
Minneapolis	54,221,513	Lincoln	1,615,467
Buffalo	19,837,009	Des Moines.	5,183,412
Milwaukee	25,806,070	Chattanooga	1,208,951
Detroit	27,912,902	Wichita	1,787,513
Louisville	28,092,887	New Bedford	3,120,821
Houston	15,204,882	Lexington	1,395,905
Providence	27,498,600	Topeka	2,206,580
St. Paul	24,175,617	Waco	7,268,760
Cleveland	28,673,851	Birmingham	2,019,346
Denver	10,673,666	Binghamton	1,457,300
Omaha	25,613,452	Canton.	796,395
Indianapolis	11,820,216	Springfield, Ohio	645,568
Memphis	10,206,818	Fremont.	369,487
Columbus	15,418,100	Richmond	10,577,161
Dallas	6,500,000	Atlanta	7,268,331
Nashville	4,889,537	Bay City	965,951
Hartford	11,055,855	Akron.	1,150,800
Portland, Ore	9,028,672	Sioux Falls	621,484
Fort Worth	3,385,395	Jacksonville.	789,733
Peoria.	7,844,576	Rockford	870,770
Washington, D. C.	8,833,541	Kalamazoo	1,318,985
St. Joseph.	6,172,987	Hastings	462,545
New Haven	7,460,341	Toledo	6,644,587
Salt Lake	8,290,286	Spokane	3,347,024
Rochester	7,013,513	Fargo.	1,313,743
Savannah	17,661,581	Fall River	4,257,457
Total			$5,616,008,417

CHAPTER II.

ORGANIZATION AND MECHANICAL ARRANGEMENTS.

To establish a clearing-house a number of banks associate themselves together, under certain regulations more or less elaborate, according to circumstances, for the purpose of settling daily, at one time and place, the mutual demands arising between the banks. The officers of such an association are usually a president, or chairman, a secretary, treasurer and manager, with a clearing-house committee, and such others as the wants of the association require. At New York, in addition to the clearing-house committee, there are a committee on conference, a nominating committee, a committee on admissions, and an arbitartion committee. The manager is sometimes chosen by the association, usually by the clearing-house committee, which generally has charge of all matters incidental to the operations of the association not otherwise specially provided for. The larger clearing-houses have also an assistant manager. The salary of the manager is fixed pursuant to the rules of the association, and he gives bond with approved sureties for the faithful discharge of his duties. At New York the manager gives bonds for $10,000, clerks for $5,000 each. He has, under the control of the clearing-house committee, immediate charge of all business at the clearing-house, so far as relates to the manner in which it shall be transacted; and the clerks of the establishment, if any, as well as the settling clerks and porters or messengers of the associated banks, while at the clearing-house, are under his direction.

At a fixed hour, each day, representatives of the banks meet at a specified place, called a clearing-house, and exchange the checks or other paper which they hold against one another. The paper which the banks take to the clearing-house is called the exchange, and the total amount of paper exchanged is called the clearings, or exchanges. Those banks which bring to the clearing-house a less amount in checks or other paper than they take away—called debtor banks—pay at a later hour on the same day to the banks which bring more than they take away—called creditor banks—a balance, either directly or through the clearing-house, in cash or its equivalent. The payment of the balances by the debtor banks, and the receipt of these balances by the creditor banks, complete each day's settlements. As the aggregate amount brought is always the same as the amount taken away, so the

balances due from the debtor banks must be exactly equal to the amount due to the creditor banks. The clearing system is the application on a large scale of the principle of set-off. The saving of time and in the handling of cash is an obvious advantage flowing from the union of banks in a clearing-house. There are other advantages, not less important, which will appear on further examination.

The mechanical arrangements used by the various clearing-houses in effecting their settlements differ according to the character and magnitude of the operations carried on. At some of the smaller clearing-houses there is no permanent place for making the exchanges, the banks taking turns. Where the transactions are of large amount, however, it becomes necessary to have a room specially fitted up for the purpose. The New York clearing-house has a noble building which is owned by the association. Desks, one for each bank, are arranged in three parallel rows, each desk having the name of the bank for which it is designed lettered on a silver plate in front, and being numbered with the bank's number. At Boston, the desks in the clearing-house are arranged in an oval or elliptical form, facing outward, as they were in the old clearing-house rooms at New York. The method of doing the business is substantially the same in both.

CHAPTER III.

PREPARATION OF THE EXCHANGE.

The following analysis of clearing-house transactions is specially applicable to New York and Boston. The peculiarities of other clearing-houses will be noticed later on. Among the first things done with exchangeable paper when received is its classification according to the banks at which it is payable. The teller into whose hands it comes usually has a pigeon-hole for each bank, numbered with the clearing-house number of that bank, in which the paper payable thereat is placed. At many of our clearing-houses it is obligatory, and at all common, to place upon this paper some distinguishing mark, usually the name and number of the bank clearing it, to indicate the channel through which it has passed. In preparing the exchange for the clearing-house, the amounts, merely of the various items making up the demands against each bank, are entered upon a blank called an "Exchange Slip," as follows:

2d Teller.

No. 1.

From No. 61.

FOURTH NATIONAL BANK.

2	500	00
	500	00
1	000	00
	150	00
	800	00
5	500	00
10	000	00
50	000	00
40	000	00
85	000	00
195	450	00
4	500	00
	50	00
	125	50
60	000	00
8	500	00
268	625	50

The figures here given, it will be understood, are presented merely by way of illustration, and not as representing in character or amount the transactions of the Fourth National Bank. The first footing on the exchange slip ($195,450 in this case) represents the amount of checks or other items deposited to the close of business on a given day for the clearing of the next day. The addition of the items received the next morning by mail or otherwise in time for the clearing, makes the second footing (in this case, $268,625.50) being the total amount of claims carried to the clearing-house by the Fourth National Bank against No. 1, the Bank of New York.

There is a different exchange slip for each bank, properly labeled, to show for which bank the exchange is destined. On this slip are

entered the amounts merely, of the different checks or other items, taken to the clearing-house. The items on each slip are footed up, and the totals entered, the first footing in the first debit column, and the final footing in the second debit column of another blank called the "Settling Clerk's Statement," ruled as follows, and containing the names and numbers of all the banks, a part of which are omitted to save space:

No. 61. FOURTH NATIONAL BANK.

Settling Clerk's Statement, January 16, 1899.

No.	*Banks.*	*Debit.*	*Debit.*	*Credit.*	
1	Bank of N. Y. Nat'l Bkg. Ass'n..	$195,450 00	$268,625 50		1
2	Manhattan Co.....	250,000 00	310,000 00		2
3	Merchants' National Bank.....	50,000 00	71,000 00		3
4	Mechanics' National Bank.....	175,000 00	200,000 00		4
5	Union National Bank.....	125,000 00	145,000 00		5
6	Bank of America	90,000 00	125,000 00		6
7	Phenix National Bank	225,000 00	260,000 00		7
	(Other banks omitted.)	1,427,947 78	2,258,772 28		
	Footings.....	2,538,397 78	3,638,397 78	3,297,323 04	
	Balances	—	—	341,074 74	
				3,638,397 78	

In order to have the exchanges seasonably and carefully prepared, the first debit column is made up and footed at the close of business each day for the next clearing, the entries consisting of the first footings on the various exchange slips, as for instance, $195,450 on the one given. The heaviest part of the work is thus done the day before the clearing, leaving for the limited time left in the morning only the work of completing the additions to the exchange slips, and inserting the final totals ($268,625.50 on the exchange slip above) in the second debit column, which shows the total exchange sent. The credit column is left blank to be filled up at the clearing-house with the amounts of the return exchange representing checks or other items payable by the Fourth National Bank.

On the next page is reproduced an actual "Settling Clerk's Statement" of one of the Boston banks, showing an exact transcript of the bank's transactions with the clearing-house on a certain day. Besides the interest attaching to it as a record of actual transactions, it will serve to make the subject clearer to those not familiar with the details of clearing-house business.

....NATIONAL BANK.

Settling Clerk's Statement,.....1899.

No.	*Banks.*	*First Debit.*	*Additions.*	*Total Debit*	*Banks Cr.*	*No.*
1	Massachusetts National.....	37 25	7 15	44 40	425 25	1
2	National Union	156 82		156 82	29 03	2
3	Old Boston National..... ..	96		313 01	—	3
4	State National	—		8	782 47	4
5	New England National.....	—		394 24	3,990 10	5
6	Tremont National.	—		—	458 16	6
7	Columbian National.....	87 57		145 57	1,056	7
8	National Eagle	111 44		111 44	1,047 50	8
9	National City	—		—	—	9
10	Washington National	5		1,515 81	567 76	10
11	North National	3 75		1,615 74	1,545 91	11
12	Atlantic National	193 56		452 60	215	12
13	Merchants National.....	9,476 54		10,523 12	29,' 22 87	13
15	Hamilton National	477 80		477 80	3,469 42	15
16	Market National.	654 35		654 35	990 60	16
17	Second National.	1,926 34		2,553 84	63,132 06	17
18	Atlas National	41 45		51 16	112 54	18
19	Shoe and Leather National ..	6.252 14		7,316 48	2,248 43	19
20	Shawmut National	1,176 90		1,766 33	15,089 36	20
21	National Exchange	1,685 39		9,172 82	9,675 45	21
22	National Bank of Commerce..	4,656 92		5,006 91	9,258 75	22
23	National Bank of N. Am rica.	329 35		629	111 75	23
24	Faneuil Hall National	1,167 09		1,723 16	2,236 80	24
25	National Webster	26 50		74 95	—	25
26	Eliot National	19 52		466 74	3,853 21	26
27	Howard National.....	28,579 63		—	—	27
28	Suffolk National.....	26 23		714 89	310 21	28
29	Globe National	665 20		2,677 26	3,267 07	29
31	Freemans National.....	250 85		929 27	107 23	31
32	Boylston National	354 72		545 69	46 01	32
33	Blackstone National.....	3,554 77		3,829 16	216 24	33
34	Boston National	1,589 46		1,613 46	593 25	34
36	National Hide and Leather....	677 67		3,742 92	21,213 12	36
37	National Bank Redemption ...	1,660 13		18,728 05	3,476 03	37
39	First National	1,129 42		1,328 96	2,479 90	39
40	National Revere	36 17		702 54	1,016 89	40
41	National Bank of Republic....	3,926 35		4,971 83	12,0.9 66	41
42	Continental National	24 36		24 36	95 93	42
43	Mt. Vernon National	173 74		173 74	215 45	43
44	Third National ...	20,857 27		21,243 34	3,122 56	44
45	Everett National.....	—		—	—	45
46	National Security..... ..	776 37		939 57	1,397 80	46
47	Broadway National	981 88		1,697 49	354 88	47
48	National Bank Commonwealth	3,475 94		5,358 69	827 91	48
49	Central National.	60 90		752 07	50 33	49
50	Manufacturers National.	4,824 95		4,846 95	24 60	50
51	Fourth National	615 08		4,159 02	479 64	51
52	Metropolitan National.....	275 34		281 34	476 47	52
53	Winthrop National	255 72		3,541 55	2,329 44	53
54	Lincoln National	252 39		252 39	- 7 51	54
55	Mechanics National	758 96		958 96	2,049 22	55
56	Commercial National.....	370 43		1,335 53	2,822	56
	Footings	—		130,523 32	209,061 77	
	Balance	—		78,538 45	130,523 32	
				209,061 77	78,538 45	

A study of this statement will make apparent one of the great economies effected by the clearing-house system, namely, the consolidation into one item of the accounts with all the banks. Thus, in the statement here presented, the forty-five debits are represented by the single total debit of $271,232.36, and the forty-eight credits by the total of $150,655.56, while instead of fifty mutual balances to adjust, the single item of $120,576.80 covers the whole.

The first column represents the first footing on the exchange slip, being the amount of clearing matter received up to the close of bank hours for the next day's clearings. The second column represents the total debit, after adding the checks or other paper received the next morning by mail or otherwise, in season for the day's exchanges. The blank for the Settling Clerk's statement is the same for all the banks. The blank used at Boston contains another column between the two debit columns, designed for "Additions," to show the exchange received each morning in season for the day's clearing. As this column is not needed, and is frequently not used, it is omitted in the form above given. The credit column is filled up at the clearing-house with the amounts of the return exchange brought by the other banks. When the exchange slips are completed and footed, each slip is attached to the outside of the package of checks and vouchers which it represents, or the amount is marked on the outside of a sealed envelope containing them. The different packages are also arranged in the order in which they are to be delivered at the clearing-house, and placed in a satchel or other enclosure to be carried thither. The entries in the Settling Clerk's Statement are carefully verified and footed, showing the bank's total debit against the other banks, and its credit, that is the amount with which it is credited, at the clearing-house. This total is compared with the paying teller's footings, and if both agree, the correctness of the statement is so far proved. It is rare that an error occurs in the debit figures. The total debit is entered on another blank called a "Credit Ticket," as follows:

New York Clearing-House.

No. 61. NEW YORK CLEARING-HOUSE,

January 17, 1898.

Credit **FOURTH NATIONAL BANK** ..... $3,638,397.78.

J. SMITH, *Settling Clerk.*

The amount of the exchange for each bank is also entered in another blank called a "Check Ticket," as follows:

No. 1.

BANK OF NEW YORK,

NATIONAL BANKING ASSOCIATION.

From No. 61,
Fourth National Bank.
$268,265.50.

A similar ticket is made up for each of the other banks, and is delivered to its settling clerk at the clearing-house, by which to "check" the entries in the credit column of his statement, since every debit entry on one statement must, if the figures are correctly transcribed, correspond with a credit entry on some other satement. These check tickets may be made up and delivered by the settling clerks at the clearing-house while the settlement is in progress.

A copy of the debit columns in the Settling Clerk's statement is made on another partly corresponding blank, with a space on the right for signatures, instead of the credit column. This is called the "Settling Clerk's Receipt," and is taken by the messenger who carries also the packages of checks or vouchers. The settling clerk carries his statement and the credit ticket. At all the larger clearing-houses each bank is represented by these two clerks, the messenger or porter, and the settling clerk. At New York some of the banks have two settling clerks; the whole force of clerks employed by the sixty-four banks being one hundred and sixty.

CHAPTER IV.

HOW CLEARINGS ARE MADE.

At a few minutes before 10 o'clock the clerks begin to arrive at the clearing-house, and each settling clerk as he enters passes to the manager's desk, his credit ticket showing the amount of exchange with which his bank is to be credited. These amounts are entered as rapidly as possible in the credit column of another blank called the "Clearing-house Proof," which is given on a subsequent page. So rapidly is this work done by an expert that within a very few minutes after the last credit ticket is received the entries in the credit column are completed and footed, showing the total exchange of the day if no error has been made. Just before 10 o'clock a stroke of the manager's bell calls the clerks to order. They take their places at their respective desks, the settling clerks inside, and the messengers outside, the former with his statement so far as completed, the latter with the "Settling Clerk's Receipt," and the actual vouchers for the banks to which they are to be presented. Another stroke of the bell, at 10 o'clock precisely, is the signal for the exchanges to commence. No variation from this time is allowed on any pretext whatever, and on this point the clearing-house is no respecter of persons. A few years ago Mr. Windom, Secretary of the Treasury, desired to witness the exchanges, and was apprised of the inflexible punctuality required. He arrived some minutes late, only to find that the clearings had taken place just as if he had been an individual in a private station.

At the second stroke of the bell, each messenger advances one step, which brings him to the desk of the first bank at which he is to deliver vouchers. He hands over the exchange package designed for that bank, also the "Settling Clerk's Receipt," on which the settling clerk enters his initials against the amount, as a voucher to show that the exchange has been received. The receipt is then handed back to the messenger, who passes on and repeats the operation at the desk of every other bank for which he has any vouchers, finally, coming around to his own desk after having delivered all his packages. Supposing him to have a package for every bank except his own, each of the sixty-four messengers has delivered sixty-three packages. The number of accounts thus settled between the banks is, therefore, 64x63 —4032. The time required for delivering the exchanges is ten minutes at New York, and five minutes at Boston. In the old way of ex-

changing it would have taken several hours. At Boston there is no "Settling Clerk's Receipt," and the messengers deliver at each desk the check ticket already mentioned, showing the amount of each package delivered.

The messenger having completed his circuit, takes back to his bank the return exchange left at the desk of his bank by the messengers of the other banks, with a statement showing in round numbers the result of the clearing. The return exchange, consisting of the vouchers payable at the bank to which they are delivered through the clearing-house, is, when brought to the bank, delivered to the paying teller for examination, after which, if they are all right and the drawers have sufficient funds, the checks and other paper are delivered to the bookkeeper and charged to the proper accounts, thus closing the transaction. All checks, drafts, notes, or other items in the exchanges, returned as "not good," or missent, are to be returned on the same day to the bank from which they were received, and this bank must make good the amount received through the clearing-house for them; but when returned for want of endorsement or informality, they may, after being certified by the returning bank, be passed through the exchanges of the following morning to the amount of $5,000. Errors in the exchanges are also adjusted between the banks, the clearing-house not being responsible.

After the departure of the messengers from the clearing-house, the settling clerks continue their work, none of them being allowed to leave until the settlements are completed, without the consent of the manager. Each clerk, as soon as he has footed the credit column of his statement and carefully revised the work, strikes a balance between the total debit and the total credit exchange, which shows how much his bank is to receive or pay. He then copies these footings into what is called the "balance ticket," as follows:

New York Clearing-House.

No. 61. NEW YORK CLEARING-HOUSE.
January 17, 1898.

Debit **FOURTH NATIONAL BANK** amount received..... $3,297.323.04
Credit " " " " brought..... 3,638,397.78

$ ..... .Debit balance due Clearing-House.
Credit balance due THE FOURTH NATIONAL BANK. $341,074.74

This is passed to the manager's desk. The amount brought has been already, as before stated, entered in the credit column of the clearing-house proof. The amount received is now entered in the debit column, and the balance in the column "Due Banks" against the name of the Fourth National Bank. The next bank may have a balance against it, which should be entered in the left-hand column under the heading "Due Clearing-house." When all the balance tickets have been

delivered at the manager's desk, and the entries from them made in the proof, the debit and balance columns are footed, the credit column having been already added. As the total amount brought must be the same as the total taken away, the debit and credit columns of the proof will agree if the work is correct, as also the totals "Due Clearing-house" and "Due Banks." If the footings show this agreement, the proof is made, and the settling clerks are allowed to leave. It is a very rare occurrence that the footings agree on the first trial. An inspecton of the clearing-house proof will show that it contains about thirteen hundred figures. Each entry in the proof may represent the result of sixty-three entries in the settling clerk's statement, and these probably contain from 60,000 to 70,000 figures, made and footed with great rapidity, the entries being frequently made with pencil. The credit column of the settling clerk's statement, too, must be made up and footed within the short time allowed at the clearing-house. Under these circumstances it is natural that mistakes should frequently occur, any one of which destroys the exact balance which should exist between the debit and credit sides of the proof. When the proof is footed, and the footings fail to agree, the manager or his assistant announces the fact: "The difference is $5,530.25," or whatever the amount may be. While the preparation of the proof has been in progress the clerks have been at work verifying their figures by means of the check tickets and otherwise, and the error or errors may have been discovered as soon as the discrepancy is announced. Usually all errors are discovered and corrected within an hour from the announcement of the clearing, but sometimes an error occurs which defies detection for a long time, and keeps the whole force of clerks at work for two hours or more. Forty-five minutes are allowed for the completion of the settlement. Any delay beyond this subjects the delinquent bank to a fine. At 11:15 a. m. the fines are doubled, and at 12 m. quadrupled, so that the fines accumulate rapidly on the delinquent bank after 11:15. The object is to offer an incentive to the banks to have at the clearing-house clerks whose figures are distinct and legible, and who are rapid and accurate calculators. If the examination of the check tickets fails to disclose the error or errors, the settling clerks are ordered by turns to pass around to the different desks, each calling off the amount of his exchange to every other. This is usually the final method of revision, and seldom fails to disclose the error. The Settling Sheets are sometimes exchanged to facilitate the detection of errors in the footings. The corrections as fast as made are incorporated with the proof, and the figures appended to the footings, added or subtracted, as the case may be, preserve a permanent record of each correction. Finally, the manager, or his assistant, calls off from a balance sheet corresponding to the two main columns of the proof, the amount in thousands of dollars to the debit or credit of each bank in the exchanges of the day, also the time at which the proof was announced, and the fines and corrections, which the settling clerks transfer to corresponding blanks in their possession. These they take away for the

information of their respective banks, which thus have a record of the clearing-house dealings of all their associates.

NEW YORK CLEARING-HOUSE PROOF, WEDNESDAY, NOVEMBER 2, 1898.

No.	Banks.	Due Clearing-house.	Banks. Dr.	Banks. Cr.	Due Banks.	No.
1	Bank of N. Y. Nat'l Bk'g Ass'n..	——	10,436,017 70	10,726,864 40	290,846 70	1
2	Bank of the Manhattan Company	787,646 39	11,246,800 41	10,459,154 02	——	2
3	Merchants' National Bank	——	3,299,384 51	3,587,968 66	288,584 15	3
4	Mechanics' National Bank	——	4,895,033 76	5,052,814 46	157,780 70	4
6	Bank of America.	——	8,310,511 64	9,642,613 65	1,332,102 01	6
7	Phœnix National Bank	57,412 21	960,596 80	903,184 65	——	7
8	National City Bank	4,889,909 53	20,596,556 10	15,706,646 57	——	8
10	Tradesmen's National Bank.....	——	——	——	——	10
12	Chemical National Bank	——	4,725,444 78	5,332,083 41	606,638 63	12
13	Merchants' Ex. National Bank ..	——	1,078,131 56	1,241,235 66	163,104 10	13
14	Gallatin National Bank	203,659 12	5,281,254 13	5,077,595 01	——	14
15	Nat'l Butchers' & Drovers' Bank	11,070 18	153,905 37	142,835 19	——	15
16	Mechanic's & Traders' Bank	6,950 11	164,571 28	157,621 17	——	16
17	Greenwich Bank.	——	42,608 86	55,768 14	13,159 28	17
18	Leather Mfgrs. National Bank ..	1,020,155 80	1,737,533 73	717,377 93	——	18
19	Seventh National Bank	——	184,010 11	476,010 91	292,000 80	19
20	Bank of the State of New York ..	——	7,198,500 06	7,523,352 76	324,852 70	20
21	American Ex. National Bank...	——	10,018,685 05	11,989,563 99	1,970,878 94	21
23	National Bank of Commerce.....	714,997 77	11,012,662 17	10,297,664 40	——	23
25	National Broadway Bank	156,100 08	699,693 72	543,593 64	——	25
27	Mercantile National Bank.....	——	2,169,134 52	2,515,386 71	346,252 19	27
28	Pacific Bank	39,833 64	480,817 07	440,983 43	——	28
29	National Bank of the Republic ..	——	3,616,867 57	4,483,762 37	866,894 80	29
30	Chatham National Bank.	——	693,501 60	988,897 37	295,395 77	30
31	Peoples' Bank..... ..	——	331,457 47	331,904 45	446 98	31
32	National Bank of North America	——	2,188,246 59	2,590,955 80	402,709 21	32
33	Hanover National Bank	326,220 75	7,502,748 06	7,176,527 31	——	33
34	Irving National Bank	90,054 92	816,842 08	726,787 16	——	34
36	National Citizens' Bank	50,515 38	325,016 76	274,501 38	——	36
40	Nassau Bank.	31,340 92	404,990 93	373,650 01	——	40
42	Market & Fulton National Bank	154,255 35	828,542 82	674,287 47	——	42
44	National Shoe and Leather Bank	——	451,815 56	629,743 98	177,928 42	44
45	Corn Exchange Bank	4,534 39	3,540,112 82	3,535,578 43	——	45
47	Continental National Bank	289,467 99	2,252,616 97	1,963,148 98	——	47
49	Oriental Bank..	——	226,581 91	324,277 78	79,695 87	49
53	Importers' & Traders' Nat'l B'k.	257,715 64	3,447,774 34	3,190,058 70	——	53
54	National Park Bank.....	7,332 69	7,644,913 93	7,637,581 24	——	54
59	East River National Bank.....	8,675 55	129,456 35	120,780 80	——	59
61	Fourth National Bank	——	8,861,905 83	9,179,435 46	317,529 63	61
62	Central National Bank	——	2,070,703 41	2,116,038 86	45,335 45	62
63	Second National Bank.....	——	461,061 54	482,304 73	21,243 19	63
64	Ninth National Bank	——	379,811 05	499,279 25	119,468 20	64
65	First National Bank	——	4,622,540 53	6,257,859 16	1,635,318 63	65
67	N. Y. National Exchange Bank..	——	177,890 90	226,339 21	48,448 31	67
70	Bowery Bank	145,585 98	368,211 78	222,625 80	——	70
71	N. Y. County National Bank.. ..	——	318,626 65	323,866 75	5,240 10	71
72	German-American Bank	——	1,192,658 40	1,291,321 82	98,663 42	72
74	Chase National Bank	——	4,284,018 67	5,201,194 63	917,175 96	74
75	Ass't Treas. U. S. at N. Y.....	744,859 87	1,179,849 45	434,989 58	——	75
76	Fifth Avenue Bank	——	325,533 79	546,696 28	221,162 49	76
77	German Exchange Bank.....	8,945 61	279,104 81	270,159 20	——	77
78	Germania Bank	59,010 00	269,328 78	210,318 78	——	78
80	Lincoln National Bank	——	770,658 76	977,153 84	206,495 08	80
81	Garfield National Bank	135,228 58	465,453 98	330,225 40	——	81
82	Fifth National Bank.	77,270 85	190,719 98	113,449 13	——	82
83	Bank of the Metropolis	——	382,922 02	431,765 45	48,843,43	83
84	West Side Bank	——	235,967 18	246,982 28	11,015 10	84
85	Seaboard National Bank.....	202,202 34	2,062,360 30	1,860,157 96	——	85
86	Sixth National Bank.....	34,067 41	99,733 11	65,665 70	——	86
87	Western National Bank.....	957,800 54	6,926,266 31	5,968,465 77	——	87
88	First National Bank, Brooklyn..	——	1,056,833 03	1,145,491 85	88,658 82	88
90	National Union Bank	——	4,362,835 39	4,375,271 77	12,436 38	90
91	Liberty National Bank.....	207,322 25	445,233 34	237,911 09	——	91
92	N. Y. Produce Exchange Bank ..	——	342,976 35	612,355 89	269,379 54	92
93	Bank of New Amsterdam	13,543 14	169,242 84	155,699 70	——	93
		11,693,684 98	181,395,787 33	181,395,787 33	11,693,684 98	

The table on the preceding page is a specimen "Clearing-house Proof." The totals show the actual transactions on the day named, but the figures are transposed so that they do not show the actual transtions of any single bank, these not being published. Consequently, some of the banks appear as having much larger, and others as having much smaller transactions than they actually had.

It is the custom at some clearing-houses to add together both the debtor and creditor sides of the proof, thus duplicating their figures, but the footing of one side evidently represents the total amount of the vouchers exchanged. The highest bank number represented below being eighty-two, the natural inference would be that this was the number of members in the clearing-house. An inspection of the proof will, however, show that there are eighteen missing numbers, leaving but sixty-four members at the date given. The missing numbers represent banks which were once members, but are so no longer, most if not all of them having failed or discontinued business. The number eighty-two represents the total number of members that have ever belonged to the clearing-house. The failure of the Marine National Bank makes another missing number, leaving only sixty-three members, of which sixty-two are National or State banks, and one the United States Assistant Treasurer at New York, who joined the clearing-house in 1878. The Assistant Treasurer is almost uniformly debtor to the clearing-house, and rarely receives a balance from the associated banks.

CHAPTER V.

HOW OUTSIDE BANKS MAKE CLEARINGS.

In addition to the banks which are members of the Association, most of the other New York City banks effect their exchanges through the clearing-house by the agency of some bank that is a member. The bank for which the clearing is done is required to keep an adequate fund on deposit at the clearing bank, both as a compensation for the service rendered, and as a guarantee against loss. The vouchers to be cleared are sent every morning or oftener to the clearing bank, and are classified and distributed among the exchanges of the latter as if received by it on deposit. The return exchange is also received by the clearing bank with its own exchanges, as if payable by it, and after being charged to the bank for which the clearing is done, is transmitted to it as speedily as possible, usually by messengers dispatched by the latter directly after the clearing. In case of the return of checks for want of funds or other reasons, the matter would naturally be adjusted through the agency of the clearing bank. The regulations of the New York clearing-house provide, that "whenever any member of the Association shall send through the clearing-house the exchanges of any bank or banks in the city or vicinity, who are not members, such sending shall, ipso facto, and without other notice, constitute said member the agent for said bank or banks at the clearing-house; and said member shall be liable in the premises the same as for its own transactions, and its liability in all such cases shall continue until after the completion of the exchanges of the morning next following the receipt of notice of discontinuance of such agency." A similar regulation is in force at New Orleans.

At New York there are 34 banks and 11 trust companies in that city that clear through other banks, besides 19 banks and 7 trust companies that are doing business in Brooklyn, and 9 banks in Jersey City, Hoboken and Staten Island. At Boston, outside banks availing themselves of the privileges of the clearing-house must pay towards its expenses a sum to be annually determined by the clearing-house committee. At some of the clearing-houses, members are not allowed to make the exchanges of any bank outside. This is the case at Indianapolis, Lowell and Worcester.

A plan for clearing gold checks was adopted February 14, 1872, and the exchange of such checks commenced in March following and was continued until the resumption of specie payments, January 1, 1879. This exchange was kept distinct from the exchange of currency checks, but took place at the same time and place and was conducted in the same way. The total of gold clearings during this period of nearly seven years was $14,066,282,911.94, and the balances paid in gold or gold certificates amounted to $2,236,317,602.24, or 15.9 per cent. of the clearings.

CHAPTER VI.

PAYMENT OF BALANCES.

The exchanges being completed, the next step is the payment of balances. At New York the balances must be paid by the debtor banks to the clearing-house between 12:30 and 1:30 o'clock p. m., either in actual coin, United States legal-tender notes, or in United States or clearing-house certificates. At 1:30 o'clock, or as soon thereafter as the accounts can be made up, the creditor banks receive the balances from the manager at the same place, provided all the balances due from the debtor banks have been paid. Should any bank make default in the payment of its balances at the proper hour, the amount of that balance must be immediately, on requisition from the manager, furnished to the clearing-house by the several banks exchanging with the defaulting bank in proportion to their respective balances against that bank resulting from the exchanges of the day. The amounts so furnished constitute claims against the delinquent bank only, the clearing-house being in no way responsible. The defaulting bank is immediately suspended from the clearing-house. At several of our American clearing-houses the regulations provide that until the settlement is completed and balances are paid the exchange shall be in trust only, that the vouchers delivered at the clearing-house shall, until that time, remain the property of the bank presenting them, and that in case of default by any member in paying its balances, such vouchers shall be returned unmutilated to the banks from which they were received. Some recent complications at New York, arising from the failure of the Marine National Bank and of Grant and Ward, suggest the advisability of some similar regulation there. It may be stated here that the operations of the clearing-house have received legal recognition, and a presentation of a demand through the clearing-house is a legal presentation by virtue of custom among bankers and merchants.

Errors in the exchanges, and claims arising from the return of checks, or from any other cause, are adjusted directly between the banks who are parties to them, and not through the clearing-house, the association being in no way responsible for them.

As the banks severally pay their balances the manager gives each a receipt in the following form:

No. 6. NEW YORK CLEARING-HOUSE,

January 17, 1899.

Received from the Bank of America Two hundred and forty thousand, one hundred and sixty-six $\frac{60}{100}$ dollars in full for balance due the associated banks.

$240,166.60. .....*Manager.*

Sometimes a current ledger account is kept with the clearing-house, charging it with all money or vouchers sent, and crediting it with all that is returned; and this receipt is charged as a voucher on the books of the paying bank. The messengers also give to the manager, in a book with suitable forms prepared for that purpose, receipts for all balances delivered to them. It is only for a period of about one hour, while receiving and paying the balances, that the clearing-house has the custody of any money, and during that time only as trustee, receiving from one to pay another.

Reclamations for errors and deficiencies, in specie or United States legal-tender notes, received at the clearing-house, contained in bags or packages, sealed and marked in conformity with the rules of the clearing-house, must be made by 1 o'clock on the following day by the receiving bank against the bank whose mark the sealed package bears. Notice of such error must be sent immediately upon discovery, the clearing-house not being responsible for the contents of such bags or packages. Serious difficulties recently arose at New York in a matter of this kind, growing out of the failure of the Marine National Bank. On the 6th of May, 1884, this bank enclosed in the usual manner in a sealed envelope, marked with the aggregate amount, containing as items constituting its claims upon the First National Bank for exchange through the clearing-house, three checks drawn by Ferdinand Ward upon the First National Bank, amounting together to $215,000. As Ward at that time had in the First National Bank only $2,213.98, the latter refused the checks. The Marine National Bank having in the meantime failed, after paying its balance of $550,000 at the clearing-house, the First National Bank informed the clearing-house that the checks were not good and claimed to be reimbursed by the associated banks or the clearing-house.

A special committee of the Association, appointed to consider the subject, decided against this claim, but the affair resulted in the adoption, June 4, 1884, of two amendments to the constitution of the association. One of these authorizes the clearing-house committee to examine any member of the association, and to require security for the payment of its balances to the clearing-house; the other provides that in case of refusal or inability of any bank to refund the amount of checks, drafts or other items returned as not good, the bank holding them may,

before 1 o'clock, report to the manager the amount of the same, and the manager, with the approval of the clearing-house committee, is to take from the settling sheet of both banks the amount of such checks or other items so reported. This will, of course, increase any balance due from the presenting bank, for which all the banks having balances against it are responsible. The clearing-house has also recently taken action on another matter which has been agitated for many years, namely, the payment of interest on deposits. On the recommendation of a committee appointed June 4, and subsequently increased, the associated banks, on July 29, 1884, adopted, subject to the ratification of the banks individually, two amendments, one forbidding any member to pay interest on, or allow compensation for, deposits after January 1, 1885, the other providing that no checks shall pass through the clearing-house except those drawn on members. Under this amendment, if it shall come in force, banks outside could still clear on one side through members—that is, the checks and other claims on the members—but the clearing-house would be closed against checks drawn on banks outside, and these checks would be less current. The outside banks may thus be forced to become members, and bear a share of the expense from which they have hitherto, to the prejudice of the members, escaped.

CHAPTER VII.

CLEARING-HOUSE CERTIFICATES.

The labor, responsibility and risk attending the handling of the funds used in paying the balances have been greatly abridged by the use of certificates. These are of three kinds—clearing-house gold certificates, United States gold certificates, and United States legal-tender certificates. Clearing-house gold certificates are issued in accordance with a plan adopted in September, 1853, against gold deposited with one of the associated banks, and are of the denominations of $1,000, $5,000 and $10,000. They are numbered, registered and countersigned by the proper officer, and are endorsed when paid into the clearing-house by the paying bank, and when paid out are charged to the receiving bank, so that they can always be traced by the records. They are to be used only in settlements between the banks, and any member of the clearing-house which shall pay or deliver to any party, not a member, any such certificate, is subject to a fine of one hundred dollars. The Bank of America was selected as the depository of the associated banks at the time the clearing-house was established. The issue of legal-tender notes by the government and the suspension of specie payments reduced all ordinary settlements to a paper basis, and the issue of clearing-house certificates was discontinued. In 1879, after the resumption of specie payments and the discontinuance of further issues of gold certificates by the government, the clearing-house gold certificates were revived, the Bank of America being again selected as the depository. The first of the new certificates were issued October 14, 1879. The amount of these certificates outstanding June 30, 1881, was $41,858,000, but has since been reduced. United States gold certificates were authorized by Act of March 3, 1863, and were used for clearing-house purposes soon after the passage of the National Bank Act. The first issue was made November 13, 1865. They are issued against deposits of gold coin and bullion made with the Secretary of the Treasury, in denominations of twenty dollars and upwards, corresponding with the denominations of United States notes. Further issues were discontinued December 1, 1878, but were resumed under act of July 12, 1882, and they have, in part, superseded the gold clearing-house certificates. The United States legal-tender certificates

are issued under act of June 8, 1872, against deposits of legal tenders made with the Secretary of the Treasury by any national banking association, in amounts of $10,000 and upwards, and are of denominations not less than $5,000. They are payable on demand in United States notes at the place where the deposits were made, and are counted as part of the lawful money reserve of the national banks. Before the resumption of specie payments they were much used in the clearing-house settlements, being frequently called clearing-house legal-tender certificates, and the amount outstanding June 30, 1875, was $59,045,000. The amount now in use is comparatively insignificant, and they appear only to a small extent in the clearing-house settlements. The amounts and percentages paid in coin, currency and certificates in the clearing-house settlements at New York, in 1883, were as follows:

Paid in gold coin	$197,000 00	.0
United States gold certificates	564,213,000 00	36.1
Clearing-House gold certificates	990,925,000 00	63.3
United States legal-tender certificates	1,575,000 00	.1
Legal tenders and change	7,768,096 49	.5
	$1,564,678,096 49	100 0

It will be noticed that only one-half of one per cent. of the balances was paid in actual cash, and this amounts to only one-fiftieth of one per cent. of the clearings.

The system of paying clearing-house balances wholly or partially in certificates has been adopted at Boston, Philadelphia, Chicago, Baltimore, San Francisco, Milwaukee, and St. Paul. At Cincinnati, St. Louis, New Orleans, Louisville, Columbus, and Memphis, the manager of the clearing-house issues checks or cetificates on the debtor in favor of the creditor banks, which must be paid to the satisfaction of the latter. The form used at St. Louis, which will serve to illustrate, is as follows:

$5,000. ST. LOUIS CLEARING-HOUSE, July 18, 1899.

In the settlement of the balances of the Exchanges made between members of this Association to-day, there is due from (No. 6) the Commercial Bank, five thousand dollars, payable on demand to (No. 8) the Fifth National Bank.

Not transferable, and without recourse upon any other member of this Association after two o'clock P. M. of this day.

E. CHASE, *Manager*.

The forms are different at different clearing-houses, but their purport is substantially the same in imposing upon some debtor bank the duty of paying a certain sum to some creditor bank in settlement of the balances. In this case the payment of balances, as well as the

exchange of vouchers, is a matter settled exclusively between the banks, the clearing-house handling no money and having nothing to do with the matter, except to apportion the payments.

At Providence, Hartford, New Haven, Worcester, Springfield, Lowell, Syracuse, and to some extent at Portland, Maine, balances are paid by checks on New York or Boston, except where they are for small amounts. This plan is similar in principle to that prevailing in the British and other European clearing-houses. The handling of cash is entirely dispensed with, so far as checks drawn on some common depository are used. The check issued in these cases would be forwarded by the creditor bank to its New York or Boston correspondent, which might also be the depository of the debtor bank. If not, the check would be either collected directly, or through the New York or Boston clearing-house.

CHAPTER VIII.

THE RECORDS KEPT AND THEIR USES.

The payment of the balances being completed there remains the duty of making up a record of the day's business for preservation and future reference. This is a matter the importance of which is sometimes overlooked. However small the transactions of a clearing-house may be they are destined to be of value in the future as a means of measuring growth, if nothing else. There are, too, many problems of interest to bankers, on which light would thrown by a study and comparison of clearing-house data carefully and intelligently prepared. In the interests of philosophic inquiry it is worth while to preserve all facts relating to operations of so interesting a character as those of the clearing-house. At New York, where the volume of business justifies it, very full and elaborate records are kept, showing every important fact connected with the business, and it is possible to learn there many particulars of which no record is preserved at other clearing-houses. A ledger is kept in which are posted the daily footings of the proof, "exhibiting a continuous history of the aggregate dealings of the banks." The entire proof, also, is transferred into a book kept for that purpose. "In like manner, the daily debit and credit exchange of each bank is posted to its account, and shows not only the extent of its business, but measurably its character also. This is the most essential of all the records. It is that which brings the banks separately within the supervision and control of the clearing-house—a necessary complement of the joint responsibility created by the organization."* If the daily records of its transactions show that its reserves are undergoing constant depletion without any known source of replenishment, its credit at the clearing-house is affected, and it may be subjected to an examination by a committee consisting of the clearing-house committee and a committee of five bank officers, which joint committee has power to suspend any bank from the privileges of the clearing-house, "in case of extreme emergency," until the pleasure of the association is ascertained. To effect a suspension a majority of each committee must be present and the vote

*Gibbons' Banks of New York and the Panic of 1857.

must be unanimous. The association alone has the power of expelling a member.

A summary book is made up from the daily postings, showing the total receipts and payments by each bank for the week, and also for the month and year. The adverse balances of one period may be compensated by the favorable balances of a succeeding period, and thus the state of the reserve of each bank is followed up with unfailing precision. "If at the end of a month it appears that a bank has paid in to the house one million of dollars more than it has received, and if it has no foreign sources of replenishment, the conclusion is that it has supplied itself by purchase. If the same result should be shown at the end of another month, without signs of recuperation, and so on continuously, it becomes evident that the institution is carrying a forced average of loans, and it will receive a call from the committee. * * * But this extreme case is most unlikely to happen. The credit that every member derives from the association is too valuable to be cast off or treated with lightness. The action of the association is too impartial and just to give offense, or to admit excuse for disregarding its advice."

"A positive principle, or rule, of financial government, has been demonstrated by this action of the clearing-house on the city banks, that is, the restriction of loans by the necessity of maintaining a certain average of coin (or legal tenders) from resources within the bank. Borrowing from day to day will no longer do. It cannot be concealed. The records will show conclusively whether the average is kept up by a healthy business, or by a forcing process."*

"The limitation imposed does not stop at the bank loans, but passes through them into the commercial system. The loans rest on the coin (or legal tender) average, this rests on the deposits, and the deposits rest on the means of trade. The clearing-house has not created any new dependence of this kind, but it has brought the facts into a manageable shape, and established something like an axiom in the banking business. It is not a mere arbitrary requirement that a specific average of coin (or legal tenders) must be maintained, but it is the constitution of that average as a result, and the control of it by an organiaztion which permits no escape and works no injustice—and what that organization is for the city of New York, the city is for the country; a restrictive power over the general currency of trade must be exerted through this channel to its remotest sections."

Weekly publication of bank statements had been required by law even before the establishment of the clearing-house, but many ways of doctoring such statements were devised, so that the objects of the law were only partially realized. Each bank in the clearing-house is required to furnish to the manager every Saturday, on or before 12 o'clock m., a statement showing the average amount of loans and discounts, of specie, of legal-tender notes, of deposits, and of circulation,

*Gibbons' Banks of New York and the Panic of 1857.

for the preceding week. These statements are tabulated by the manager and given to the public. They have this advantage over the statements made under the law, that the daily operations of the clearing-house furnish a means of testing their accuracy. Deception may still be practiced, but it is likely sooner to come to light than it would but for the searching test afforded by the daily settlements.

"The improvement in the character of its loans is consequent upon the fact, that if a bank becomes embarrassed by their imprudent extension, it can get a good class of paper rediscounted, and thus obtain immediate relief; whereas if its discounted paper is of a low grade, or if the assistance required is to help the directors only, and not its dealers generally, it loses sympathy and reputation. The character of its discounted bills is, therefore, its sheet anchor in a storm. In fact, the credit of the clearing-house association would itself be impaired if it should allow one of its members to fail from inability to convert good assets into cash funds."* One of the ways by which relief is afforded in such cases is by the issue of clearing-house certificates against a deposit of securities, such certificates to be available in the settlement of balances at the clearing-house. In the late crisis at New York some $25,000,000 of such certificates were thus issued to different banks against accepted securities, certificates in no case being issued to an amount exceeding seventy-five per cent. of such securities. This measure afforded substantial relief, and the certificates were mostly withdrawn within sixty days. The same plan was tried with good results in 1861-2 and in 1873.

Other records of clearing-house operations may be made possessing practical value. Says Colonel W. M. Grosvenor, in a paper which was read at the convention of the American Bankers' Association in 1882: "In the mere observation of the course of exchanges in different sections and at different localities, many business men affirm that they have gained important advantages. They have been warned in season, when the business of a distant city was being diverted to others, or depressed by social or political influences. They have been advised in season, by gradually expanding exchanges, that industry in a distant region was reviving, and prompt effort in that direction has been rewarded. Investors have been guided in the choice of securities by evidence of rapid growth in the business of cities. Lenders have been warned by unnatural expansion and violent fluctuation in the exchanges at a particular city, that excessive speculation was approaching its climax there, so that loans were 'extra hazardous.' Information of more general importance has repeatedly been obtained. The inquiry is yet in its infancy, and comparatively little is known of the meaning of records which, in due time, will enable men to note the coming of many financial storms as surely as the march of an area of low barometer across the country is traced by the signal service."

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*Gibbons.

At one of the meetings of the American Bankers' Association (1884), Mr. Comegys, President of the Philadelphia National Bank, suggested that the clearing-house might keep another record, with a brief explanation of which we shall close this chapter. The risks and losses growing out of the purchase of one-name paper are well understood, especially among bankers. To lessen the risk thus incurred, he proposed that a credit ledger should be opened in the clearing-house of any city, in which should be kept a record of the names of payers and endorsers, and dates of maturity of all notes amounting to one thousand dollars, or more, held by the banks, purchased of brokers. The reports of such paper, he further proposed, should be made to the clearing-house anonymously, and information concerning such names should be given only to members of the clearing-house. Large sums of money, he declared, might be saved to banks by means of this information.

CHAPTER IX.

FINES.

The minor delinquencies of the banks in their relations with the clearing-house are dealt with by means of fines. The following scale of fines at New York will serve as an illustration:

First.—All errors on the Credit side of the Settling Clerk's Statement (*i. e.* in the amount brought) whether of footing or entry, and all errors causing disagreement between the credit entries, the check tickets, and the exchange slips, each, $3 00
Second.—Errors in making the Debit (*i. e.* the amount received) entries..... ..each, 2 00
Third.—Errors in the Tickets reported to the clearing-house, causing disagreement between the balances and aggregates ....each, 2 00
Fourth.—Errors in footing the amount received..... .. ..each, 1 00
Fifth.—Disorderly conduct of Clerk or Porter, at the clearing-house; or disregard of Manager's instructions.....each offense, 2 00
Sixth.—Clerk or Porter failing to attend punctually with statements and tickets complete at the morning exchanges ..... each, 2 00
Seventh.—Debtor banks, failing to appear to pay their balances before 1:30 o'clock P. M 3 00
Eighth.—Errors in delivery or receipt of exchanges..... .....each, 1 00

Forty-five minutes are allowed for the proof. For all errors remaining undiscovered at 11:15 a. m. the fines are doubled, and at 12 m. quadrupled. Once in each month the manager reports to each bank the amount of fines against it for the preceding calendar month, with the total amount of fines from all the banks and the number of banks fined. Clerks are required to conduct themselves in a quiet and orderly manner, to be attentive to their duties, and to remain at their desks while the proof is being made, and until it is announced. Loud conversation, or anything tending to create disturbance or confusion, is not permitted. The fines, though not large considering the amounts involved, are sufficient to make it an object for banks to employ clerks who are rapid and accurate in figures, though there are very marked differences of aptness in this particular.

CHAPTER X.

HISTORY OF THE NEW YORK CLEARING-HOUSE.

The first proposition for establishing a clearing-house in New York was made by Albert Gallatin in 1841. But an organization was not effected until twelve years afterward. Meanwhile the banks were making settlements with each other at great risk and inconvenience by the methods then prevailing. Each bank was obliged to keep a ledger account with every other bank; and settlements were made between them by cashier's drafts every Friday. To Mr. George D. Lyman, the first manager of the New York clearing-house, belongs chiefly the credit of systematizing its details and planning its records in its earlier history. Mr. Lyman thus concisely sums up the economy of time and labor effected by the clearing-house:

"On the day when the clearing-house began business, about twenty-seven hundred open, active accounts on the ledgers of the associated banks were balanced—the most of them for the first time,* and all of them finally. The business which had rendered necessary this large number of accounts was thenceforth accomplished more quickly, with less annoyance to bank officers, and with greater safety to all concerned. The results may be briefly enumerated as follows:

"First.—The condensation for each bank of forty-eight balances into one, and the settlement of that balance without a movement of specie.

"Secondly.—The avoidance of numerous accounts, entries and postings.

"Thirdly.—Great saving of time to the porters and of risk in making exchanges and settlements from bank to bank.

"Fourthly.—Relief from a vast amount of labor and annoyance to which the great army of cashiers, tellers and bookkeepers were subjected under the old system.

"Fifthly.—The liberation of the associated banks from all injurious dependence on each other.

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*"The practice of the banks had been to draw settlement checks on each other for even thousands of dollars near the balance due, and the account was never settled to a point."

"Sixthly.—The absolute facility afforded by the books of the clearing-house for knowing at all times the management and standing of every bank in the association."

When organized the association consisted of fifty-two members, which have now increased to sixty-four, though there have been several changes during this interval, caused by the failure or retirement of members. One of the most important features of the association is the examination of every bank that applies for membership and watchfulness always exercised over it after its admission. Each member has a direct interest in every other, for it does not wish to run the risk of loss in giving credit to checks of an insolvent institution. So whenever there is any reason to doubt the solvency of one of their members, an examination is made under the direction of the governing committee of the clearing-house, and the truth is ascertained. Moreover, this examination is no sham, ignorant affair, but is likely to disclose the truth. If the business of a bank is in a bad way, the committee decides on a course of action that the bank must follow, or withdraw from the clearing-house. No bank wishes to withdraw, for to do this is to set the seal of condemnation upon itself. Every one knows what this means, that the institution is no longer worthy of credit. To withdraw under such circumstances would be essentially the same thing as to close its doors.

When, therefore, a bank is desirous of becoming a member of the clearing-house it must apply to the committee on admission, who make such examination of the bank as they deem necessary. The personal character and standing of its managers is also considered. The bank may be admitted to the association by a three-fourths vote (by ballot) of the members present at any meeting, on such conditions as three-fourths of those present may deem expedient. The new member must assent to the constitution and pay an admission fee, varying from $1,000, where the capital does not exceed $500,000, up to $7,500, where the capital exceeds $5,000,000. Any member increasing its capital must pay an additional sum corresponding with these rates.

The New York clearing-house had not been long in operation before weakness was revealed in the management of eight banks, and these were obliged to liquidate in consequence of their inability to make their daily settlements. In 1884 three others came to their end through mismanagement. The extent of the supervision exercised by this association over its members the public will never know, because it is best that much of it should remain secret. The banks thus associated learn more about one another than they ever would if acting entirely alone, and examinations are made, and warnings given, of which the public has no knowledge. The direct interest that every bank has in knowing the true condition of every other member is one of the great merits of the system.

The magnitude of the transactions of the New York clearing-house may be clearly shown from the following table:

CLEARINGS AND BALANCES OF THE NEW YORK CLEARING-HOUSE.

Year.	No. of banks.	Capital.*	Clearings.	Balances paid in money.	Average daily clearings.	Average daily balances paid in money.	Balances to clearings.
							Per ct.
1854	50	$47,044,900	$5,750,455,987	$297,411,494	$19,104,505	$988,078	5.2
1855	48	48,884,180	5,362,912,098	289,694,137	17,412,052	940,565	5.4
1856	50	52,883,700	6,906,213,328	334,714,489	22,278,108	1,079,724	4.8
1857	50	64,420,200	8,333,226,718	365,313,902	26,968,371	1,182,246	4.4
1858	46	67,146,018	4,756,664,386	314,238,911	15,393,736	1,016,954	6.7
1859	47	67,921,714	6,448,005,956	363,984,683	20,867,333	1,177,944	5.6
1860	50	69,907,435	7,231,143,057	380,693,438	23,401,757	1,232,018	5.3
1861	50	68,900,605	5,915,742,758	353,383,944	19,269,520	1,151,088	6.0
1862	50	68,375,820	6,871,443,591	415,530,331	22,237,682	1,344,758	6.0
1863	50	68,972,508	14,867,597,849	677,626,483	48,428,657	2,207,252	4.6
1864	49	68,586,763	24,097,196,656	885,719,205	77,984,455	2,866,405	3.7
1865	55	80,363,013	26,032,384,342	1,035,765,108	84,796,040	3,373,828	4.0
1866	58	82,370,200	28,717,146,914	1,066,135,106	93,541,195	3,472,753	3.7
1867	58	81,770,200	28,675,159,472	1,144,963,451	93,101,167	3,717,414	4.0
1868	59	82,270,200	28,484,288,637	1,125,455,237	92,182,164	3,642,250	4 0
1869	59	82,720,200	37,407,028,987	1,120,318,308	121,451,393	3,637,397	3.0
1870	61	83,620,200	27,804,539,406	1,036,484,822	90,274,479	3,365,210	3.7
1871	62	84,420,200	29,300,986,682	1,209,721,029	95,133,074	3,927,666	4.1
1872	61	84,420,200	33,844,369,568	1,428,582,707	109,884,317	4,638,256	4 2
1873	59	83,370,200	35,461,052,826	1,474,508,025	115,885,794	4,818,654	4.1
1874	59	81,635,200	22,855,927,636	1,286,753,176	74,692,574	4,205,076	5.6
1875	59	80,435,200	25,061,237,902	1,408,608,777	81,899,470	4,603,297	5.6
1876	59	81,731,200	21,597,274,247	1,295,042,029	70,349,428	4,218,378	6.0
1877	58	71,085,200	23,289,243,701	1,373,996,302	76,358,176	4,504,906	5.9
1878	57	63,611,500	22,508,438,442	1,307,843,857	73,785,747	4,274,000	5.8
1879	59	60,800,200	25,178,670,691	1,400,111,063	82,015,540	4,560,622	5.6
1880	59	60,475,200	37,182,128,621	1,516,538,631	121,510,224	4,956,009	4.1
1881	61	61,162,700	48,565,818,212	1,776,018,162	159,232,191	5,823,010	3.6
1882	62	60,962,700	46,552,846,161	1,595,000,245	151,637,935	5,195,440	3.4
1883	64	61,162,700	40,293,165,258	1,568,983,196	132,543,307	5,161,129	3.9
1884	62	60,412,700	34,092,037,338	1,524,930,994	111,048,982	4,967,202	4.5
1885	64	58,612,700	25,250,791,440	1,295,355,252	82,789,480	4,247,069	5.1
1886	64	59,312,700	33,374,682,216	1,519,565,385	109,067,589	4,965,900	4.6
1887	65	60,862,700	34,872,848,786	1,569,626,325	114,337,209	5,146,316	4.5
1888	64	60,762,700	30,863,686,609	1,570,198,528	101,192,415	5,148,192	5.1
1889	64	60,762,700	34,796,465,529	1,757,637,473	114,839,820	5,800,784	5.0
1890	65	60,812,700	37,660,686,572	1,753,040,145	123,074,139	5,728,889	4.7
1891	64	60,772,700	34,053,698,770	1,584,635,500	111,651,471	5,195,526	4.6
1892	65	60,422,700	36,279,905,236	1,861,500,575	118,561,782	6,083,335	5.1
1893	65	60,922,700	34,421,380,870	1,696,207,176	113,978,082	5,616,580	4 9
1894	66	61,622,700	24,230,145,368	1,585,241,634	79,704,426	5,214,611	6.5
1895	67	62,622,700	28,264,379,126	1,896,574,349	92,670,095	6,218,277	6.71
1896	66	60,622,700	29,350,894,884	1,843,289,239	96,232,442	6,043,571	6.3
Total	..	†67,663,800	‡1,102,864,012,832	‡51,306,942,821	†83,683,437	†3,893,083	4.65

Clearing-house transactions of the assistant treasurer of the United States at New York for the year ended October 1, 1896:

Exchanges received from clearing-house	$266,519,057
Balances received from clearing-house	869,078
Total	$267,388,135
Exchanges delivered to clearing-house	99,592,915
Balances paid to clearing-house	‖ $167,795,220

*The capital is for various dates, the amounts at a uniform date in each year not being obtainable.

†Yearly average for forty-three years.

‡Totals for forty-three years.

‖Balances consisted of legal tenders, etc.

Another great service rendered by the association is the issue of clearing-house certificates in times of monetary stringency. These serve most of the purposes of money. Their form and mode of issue have been already described. They are used in payment of balances, and, indeed, so perfectly serve the purpose of currency that a former Secretary of the Treasury seriously thought of imposing the ten per cent. tax on the issuers, as may be done on all persons or associations, except national banks, that issue anything which serves as money or as a substitute therefor. As the New York clearing-house is the largest one in this country, it has played the most important part in issuing at different times these certificates. A former manager, Mr. Camp, has thus described the mode and effect of issuing them:

"Never was the truth of the motto that 'in union there is strength' more aptly illustrated than in the history of this great financial brotherhood. Its strength lies principally in the plan known as the loan committee system, devised originally by able men, members of the association, and improved upon from time to time by experience, until now it seems, when put into operation, a power so strong as to at once by the restoration of confidence avert the disaster of a financial panic. This plan consists in the issuance to banks requiring them of certificates of the loan committee based upon stocks, bonds or bills receivable, approved by the committee, with a margin of not less than 25 per cent., and the bank's obligation in addition. These certificates, bearing interest, and having the guarantee of the association, and available for the settlement of balances at the clearing-house, make a perfectly safe as well as profitable security for the members of the association, at the same time removing pressure upon such banks as need only temporary relief, by converting their collateral and bills receivable into an equivalent to a cash asset.

"They have invariably accomplished the object of their issue, and in a brief period have always been retired and cancelled without loss. It is only when banks are actually solvent that such relief is extended. This was instanced in November, 1890, when three banks suddenly found themselves unable to meet promptly, as required by the association, their clearing-house balances. They were assisted by individual banks to the extent required for that day; their condition was then examined by the committee, and two of them being found perfectly solvent, were afforded the aid requisite for a continuance of business; but the condition of the other, the North River Bank, not being satisfactory, further assistance was refused it, whereby the public was assured that if a solvent bank should suffer temporary stringency it would be aided and protected by the association, while only scant courtesy could be expected for one whose methods and condition should be proved upon examination to be unsound.

"To demonstrate how effective is the safeguard which this system affords as a means of mutual protection, it is only necessary to call

attention to an attempt recently made upon the securities and resources of a certain bank in good standing and credit by a party of unscrupulous bank-wreckers. Every business man in New York must remember with what marvelous celerity their schemes were brought to an abrupt termination and they themselves summoned before the bar of justice. So long as they were contented to devote their attention to outside banks their plans prospered, but almost the very day they presumed to trifle with a bank connected with the clearing-house association their plans were frustrated. Before any of the conspirators were aware that they were even suspected, the committee was sitting in special session and probing their actions to the bottom.

"The conservatism of the New York clearing-house is especially manifested in the fact that while most of the clearing-houses in the United States resort to transfers of balances in their settlements, this association has never, except in the matter of loan certificates, accepted any other medium than legitimate gold coin or legal-tender money."*

*For the remainder of his account of the New York clearing-house, see North Am. Rev. for 1892, vol. 154, p. 684. See, also, an account by Kinahan Cornwallis in International Rev. for Sept.-Oct., 1876.

XI.

CLEARING-HOUSES OUTSIDE OF NEW YORK.

The Boston clearing-house was organized three years after that of New York; its clerks and porters, as well as the manager, give bonds, and the daily routine is substantially the same. The hour for clearing is 10 o'clock a. m. The debtor banks are required to pay their balances by 12:15 p. m., and the creditor banks receive them at 1:30 o'clock p. m. Thirty minutes are allowed for the proof and for delivering check tickets, and for each fifteen minutes' detention beyond that time two dollars are added to the fine incurred. About half an hour is required to prepare the exchanges for the clearing-house. The messengers complete the delivery of the packages at the clearing-house in about five minutes. They receive the return clearings in about ten or fifteen minutes, and are generally back at their respective banks by fifteen or twenty minutes past 10. The paying teller completes the examination of the return exchange usually by 11 o'clock, and then delivers the checks and vouchers to the bookkeeper, who enters them on his books in ink of a different color from that used in charging those paid over the counter. Usually the bank sending paper to the clearing-house marks its number on the back of each check or voucher in blue ink, but the practice is not uniform. Although the check tickets are usually prepared at the bank and delivered by the messengers, this is not obligatory. It is sufficient if the check tickets are all delivered before 10:30 o'clock, for failure to do which a fine of one dollar is imposed. No failure has ever occurred among the banks connected with the Boston clearing-house, though the Mechanics' Bank (No. 30) never came in, and the Metropolis (No. 38) discontinued business many years ago. Provision is made in the constitution for making one of the associated banks a depository of coin against which certificates may be issued. But this provision is at present dormant, United States gold certificates being used instead. In case of default by any bank in paying its balances at the clearing-house, the constitution, in addition to provisions similar to those of the New York clearing-house, provides that any bank responding to the manager's requisition for the deficiency may have its exchanges with the defaulting bank canceled, and be restored to the position in which it stood before the exchange was made. Weekly statements are required from the banks, as in New York.

At Philadelphia there are two clearings daily. The first, and principal clearing, is at 8:30 o'clock a. m. The balances of this clearing are paid in legal-tender notes or United States certificates, between the hours of 11 and 12 o'clock. A second, or "runners'" exchange, is held at 11:30, for the settlement of the items formerly taken to the different banks by the runners, namely, the notes and checks received by the morning mail. The balances of this exchange are paid by due bill, which goes through the next morning's exchanges. The clearing methods are similar to those at New York. Weekly bank statements are also published.

At Chicago the hour for clearing is 11 o'clock daily. Balances must be paid by the debtor banks between the hours of 12 and 12:30, and the creditor banks receive them between 12:30 and 1:15 o'clock. Balances are, by the rules of the clearing-house, payable in gold coin, legal tenders, National bank notes, United States and clearing-house certificates. It is customary, however, for the banks to save the handling of actual cash to a greater or less extent by the following expedient: A debtor bank sells to some creditor bank New York or Boston exchange, and receives from the latter a check or order on the clearing-house, the form of which is printed on green paper, and is as follows:

No..... CHICAGO..... 1899.
W. S. SMITH, *Manager*
Chicago Clearing-house.
Pay..... or order
.....Dollars
and deduct from balance due us this day.
$..... .....*Cashier.*

The debtor bank delivers this voucher at the clearing-house in settlement of the amount which it represents, and it is available to the clearing-house in settling with the creditor bank without handling any cash. At St. Paul a similar usage prevails, the check or order on the clearing-house being printed on light yellow paper.

At Chicago all checks and vouchers exchanged at the clearing-house are held in trust only by the member receiving the same until returned, or the amount thereof paid. In case of failure on the part of any bank to pay its balances at the proper hour, it is to return such checks or vouchers, without mutilation, to the clearing-house before 1 o'clock p. m., and it is to receive back the vouchers it sent. Elaborate provisions are made for the protection of the associated banks in such cases. The work of clearing, in its various stages, occupies about two hours. Thirty minutes are allowed for the proof. The paper exchanged is stamped "Paid through the Chicago clearing-house to" (name

of member clearing same to be here inserted), with the date, in lieu of written endorsements, and the bank using such stamp thereby makes itself responsible for all items so stamped by it, and for all informalities of endorsements thereon. The business hours of the different members must be uniform, and are regulated by the association. Each member of the association is required to furnish to the manager, as often as five times yearly, and at such other times as may be required by the clearing-house committee, a sworn statement of its condition, in the form and manner prescribed for the statements of national banks, such statements to be open to the inspection of the members, but to be otherwise confidential. The scale of fines shows some peculiarities, among which may be mentioned those for being late at the morning exchanges. For the first five minutes, or part thereof, late, the fine is $3; for the second five minutes, or part thereof, $10, and for being over ten minutes late, $25. Creditor banks are also fined $3 in case of failure to take away their balances by 12:45 p. m. All fines are collected by the manager at once. The manager may require from members the signatures of such persons are are authorized to receipt for balances. The expenses of the establishment are about $8,000 per annum, assessed upon the banks in a manner similar to that at New York.

At St. Louis the hour for making the exchanges is 10 o'clock a. m. Each clerk must report the debits against his bank within twelve minutes after commencing; for failure to do which the bank is fined two dollars, with two dollars more for every five minutes' additional delay. The time required for completing the morning settlement varies from fifteen to thirty minutes. At 11 o'clock the manager issues his certificates of indebtedness by the debtor on the creditor members, the form of which has been already given, each creditor bank receiving, on an average, two certificates. The payment of balances, which are not handled at all by the clearing-house, but are settled wholly between the banks, occupies from one to one and one-half hours. As at Chicago, the exchange and delivery of checks at the clearing-house is in trust only until the debit balances are paid, and such checks must be returned unmutilated by any defaulting member. All checks sent to the clearing-house must, in lieu of written endorsement, bear the impress of a uniform stamp, showing the name and number of the bank sending it, and the date, with the words, "St. Louis clearing-house." The by-laws define proper clearing matter as follows:

1. All checks or drafts upon, or certificates of deposits, demand or matured, of any member of the clearing-house or any bank clearing through any member.

2. Any other matter specially agreed to by any member, or bank clearing through it, until notice is given to the contrary.

3. Mercantile or other paper payable at any bank shall not be cleared against such bank unless authorized by the same.

4. All unstamped checks will be considered improper matter for clearing.

5. Any bank clearing paper not proper, as aforesaid, shall be fined for disregard of instructions.

Clerks duly authorized may return at the clearing-house matter not authorized according to the foregoing to the clerk of the bank clearing it, who must receive and charge his bank with it in his debit list. The initiation fee is only $25, and the expenses, amounting to about $6,000, are paid by the members in proportion to their clearings. To be eligible as members, banks must have a paid-up capital of $150,000. Instead of a "settling clerk's statement" all on one blank, each clerk has two statements. One called a "Credit List," begins "St. Louis clearing-house..... .....1898.....from..... ..... Bank No...," and contains the exchange brought by the bank. It corresponds with the debit column in the "settling clerk's statement," as already given. The other statement is called the "Debit List," and begins "St. Louis clearing-house.....1898 on..... Bank No....." It corresponds with the credit column in the settling clerk's statement. The manager compiles periodical statements showing the condition of the banks from returns made by them. While the method of paying balances employed at St. Louis saves one handling of the funds so paid, it must usually happen that another great economy effected by the clearing-house is lost, namely, the settlement of the whole debtor or creditor balance in one item. It would be a very remarkable circumstance if the balance due from any debtor bank should be exactly the same as the balance due to some creditor bank. Whenever it is otherwise, the demand due to the one, or from the other, must be divided into two or more payments. The relative advantage of one or the other method of paying balances must, however, be determined by the circumstances of each clearing-house. What might be most convenient under certain conditions, might be quite inconvenient or impracticable under different conditions. The manager and a porter have charge of the clearing-house.

The regulations of the San Francisco clearing-house are very similar to those at New York. As at Philadelphia, there are two clearings daily, these being the only clearing-houses in the country having more than one. The hours of clearing are for ordinary days 10 o'clock a. m., and 2 o'clock p. m., precisely. At 2:30 o'clock p. m. the debtor banks pay their balances to the clearing-house, and at 3 o'clock p. m. the creditor banks receive their balances at the same place. On Saturdays the exchanges occur at 11 and 11:30 o'clock, the settlements being made at 12. About ten minutes are occupied in getting the proof, about thirty minutes in receiving debit balances, and about twenty minutes in paying credit balances. United States certificates began to be used in paying balances March 5, 1883, and clearing-house certificates June 5, 1883. Formerly the gold balances were paid in gold coin, the

silver in silver coin, and the currency in currency. This was the case before the resumption of specie payments. There are no fines or penalties other than suspension or expulsion. If a bank defaults in the payment of its balances, the amount of that balance is furnished to the manager in memorandum checks by the banks to which the defaulting bank is a debtor, in proportion to the amount due each, and the claims of the banks which have balances against the defaulting bank, and the claims of the defaulting bank against banks which may, in that exchange, have exchanged with it, shall be placed in precisely the same position as before the exchanges commenced. New members must pay an initiation fee of $500, as compared with $200 for the original members. To provide for the annual expenses, each bank also pays an annual subscription of $150, any balance required being made up by a pro rata assessment according to the amounts cleared by each bank. The work at the clearing-house is in charge of the manager and one clerk.

At Baltimore the banks make their exchanges daily at the National Union Bank of Maryland, which is the depository of the associated banks. The hour for clearing is 8:45 o'clock a. m. The balances are paid by the debtor banks at 10 o'clock, either in legal-tender notes or certificates, and are received by the creditor banks at noon.

At New Orleans the hour for clearing is 9 o'clock a. m. At 11:30 o'clock a. m., or as soon thereafter as the amounts can be made up and proved, the creditor banks receive from the manager at the clearing-house in settlement of their balances checks on the debtor banks, which checks are not transferable, and are to be in no case sent through the exchanges. The liability of the associated banks on such checks ceases at 2 o'clock p. m. on the day of their issue. Any bank unable to pay its balances is required to notify the manager and other members of the association, and if any bank fails to respond to the manager's checks before 1 o'clock p. m., such checks are to be returned to the clearing-house. The manager at once notifies the other associated banks, and strikes from the lists the exchanges of the defaulting member, which is required to hold in trust for the other banks the checks received from them until called for by them. The manager then makes a supplemental adjustment between the other banks, without recalling the checks already issued by him upon the responding banks. He charges back to them the checks brought by them against the defaulting bank, and credits back to them, first, the checks brought against them by the defaulting bank, and, second, the amount of the manager's checks issued to them upon the defaulting bank. He then issues supplemental manager's checks for the settlement of the balances which result from these debits and credits. The defaulting bank ceases to be a member of the association, and can only be readmitted by a three-fourths' vote of the association as in the case of new members. Each member of the association is required

to keep on hand in coin, United States legal tender and National bank notes and sight exchange on New York, 25 per cent. of its net liabilities subject to check as they appear each morning after the exchanges and 20 per cent. of such liabilities in coin, legal tenders, and national bank notes. Every member of the association is required to furnish to the association every Saturday morning a report of its average condition for the week ending Friday morning, showing, first, specie (coin); second, United States legal tenders and national bank notes; third, cash items; fourth, sight exchange on New York; fifth, foreign exchange; sixth, due from distant banks and bankers; seventh, loans and discounts; eighth, other cash assets; ninth, circulation; tenth, deposits (net, after exchanges); eleventh, due distant banks and bankers; subject to check; twelfth, other liabilities to banks and bankers; thirteenth, other cash liabilities. Members are required to pay an admission fee, and the expenses (except printing, which is shared equally) are apportioned according to the average amount of the clearings. No exchanges are made with members before a quarter to 10 o'clock a. m., except through the clearing-house. The exchanges are delivered at the clearing-house in sealed envelopes. The clerks, as well as the manager, must give bonds with sufficient sureties. Minute rules prescribe the manner in which bundles of currency must be assorted, wrapped up and sealed for greater security when designed to be used in paying balances.

At Cincinnati the routine is substantially the same as at St. Louis, the former having served as the model for the St. Louis, Louisville and Columbus clearing-houses. At all of these, except St. Louis (as formerly at this, also), the official statements of clearings and balances represent (or lately did) the total of both sides of the clearing-house proof, and must be divided by two to get the true clearings. The same was formerly the case at Kansas City, Milwaukee and St. Joseph. The hour for making the exchanges at Cincinnati is 2 o'clock p. m. At 2:30 the manager, in settlement of balances, issues his checks or warrants upon the debtor members to the creditor members, which must be promptly paid to the satisfaction of the latter. If payment is not made before 4 o'clock on the same day the clearing-house must be notified immediately, otherwise the other members are free from responsibility on such checks. In case of default the other members must make up the deficiency in proportion to the checks they have cleared on the defaulting member on that day, and the latter is required to return the checks it has received unmutilated, and in case it refuses or cancels such checks, the same are treated as if returned.

At Pittsburg the hour for clearing is 9 o'clock a. m., and the average time occupied is twelve minutes. The checks to be exchanged are put up in large, unsealed envelopes. The debtor banks pay their balances in cash, inclosed in sealed envelopes, between 10:30 and 11 o'clock a. m., and the creditor banks receive them between 11 and

11:30 o'clock a. m., a receipt being given in each case. All checks sent to the clearing-house are marked with the stamp of the bank sending them. The manager compiles periodical statements showing the condition of the associated banks and of the banks which clear through them.

At Providence, where there is no regularly organized clearing-house, nineteen banks clear through the Merchants' National Bank, and fifteen through the National Bank of North America. The routine, as stated by Mr. John W. Vernon, cashier of the Merchants' National Bank, is as follows: Each bank, instead of assorting the checks and other clearing matter it holds, and depositing the packages made up against every other bank, deposits its exchange in bulk with its clearing bank, and the latter assorts the checks and notes, making up new packages against each bank. When the two clearing banks have finished assorting the checks and other items and making up the packages, they exchange with each other, settling the balance in New York or Boston funds. The time required for assorting and exchanging the checks and notes is such that, although the exchange is to be deposited at 10:30 o'clock a. m., the clearing banks are not ready to settle balances until about 1 o'clock. Between 1 o'clock and 3 p. m. the clearing banks pay the creditor banks, and are paid by the debtor banks in cashiers' checks on New York or Boston banks, at the option of the payee. The banks clearing through the National Bank of North America stamp all the checks deposited by them with a circle containing the clearing number of the bank. Each bank clearing through the Merchants' National Bank stamps the checks it deposits with a triangle containing its clearing number. National bank notes as well as checks are included in the exchanges.

At Milwaukee the hour for clearing is 10:30 o'clock a. m. The various stages of the work occupy about an hour. Debtor banks pay their balances to the clearing-house at 2 o'clock p. m., either in lawful money, national bank notes, or such clearing-house certificates as may be agreed on from time to time. At 2:15 o'clock p. m. the creditor banks receive their balances. In case a bank defaults in the payment of its balances the other banks are to make up the deficiency on the manager's requisition in proportion to their balances against the defaulting member, and until the settlement is completed the exchange is in trust only, and the vouchers remain the property of the members presenting them and are to be returned if required. Checks not good are to be returned before 12:30 o'clock to the member sending the same, which is to reimburse the holder by 1 o'clock. The expenses (about $850) are borne by assessment to be fixed by the clearing-house committee, and to be paid quarterly in advance. The members are required to keep uniform hours, and are not allowed to receive on deposit checks upon any banks or bankers in Milwaukee which are not members, unless such banks or bankers clear through some mem-

ber. The banks stamp checks sent to the clearing-house. Any member may be subjected to examination, or required to furnish security, upon representation that its capital is seriously impaired.

At Kansas City the hour for clearing is 12:30 o'clock p. m., and the manager's certificates are issued in settlement of balances as soon as the proof is made. They are, in form, identical with that used at St. Louis, except that recourse may be had on the other members up to 2:30 instead of 2 p. m. The constitution is almost word for word identical with that of St. Louis, and checks cleared are stamped in the same manner. The hours of the members are to be uniform, as regulated by unanimous vote. Proper matter for clearing, according to the by-laws, consists of checks, drafts, certificates of deposit, demand or matured, and any other matter specially agreed upon, and any bank clearing paper not proper is subject to a fine. The manager makes monthly or quarterly statements, showing the clearings and balances of each member for the month or quarter, the amount of fines imposed upon each member, and the causes thereof. Only national and state banks having a capital of $50,000 or more are eligible as members.

The Louisville clearing-house is modeled mainly after that of Cincinnati. Checks only are cleared; balances are settled by manager's check, which must be collected on the same day, or the holder loses recourse.

The Detroit clearing-house is conducted on principles similar to those of the Chicago association. The clerks, as well as the manager, furnish bonds with sufficient sureties. The hour for clearing is 12:15 o'clock p. m. A fine of one dollar per minute is imposed for tardiness, and the clearings are in no case delayed more than five minutes by the absence of a member. Fifteen minutes are allowed for the proof, but the average time occupied is only ten minutes. Fines are doubled in thirty minutes, and quadrupled in one hour. The debtor members pay their balances to the manager between 1 and 1:30 p. m. in coin, legal tenders, national bank notes, clearing-house certificates provided for by the rules of the association, or New York exchange. At last accounts the practice, since the association was formed, has been to pay balances in New York exchange only. At 1:30 p. m. the creditor banks receive their balances. The exchange is in trust, and vouchers remain the property of the member presenting them until balances are paid, and in case of default must be returned to the clearing-house unmutilated by 1:30 p. m. The defaulting bank is also entitled to receive back the vouchers it has presented, and the exchanges with it are canceled. If the New York exchange given in settlement of balances is dishonored, the deficiency is assessed upon the banks having debit balances against the defaulting member in proportion to such balances. To provide for expenses the members each pay $50, and an equal share to the cost of printing. All beyond this is provided by an assessment on the banks in proportion to their exchanges sent to the clearing-house. The

paper cleared consists of checks, drafts and certified paper. Some of the members affix some distinguishing mark to paper cleared, but this is not required by the rules of the association.

At Cleveland the clearings are made at 1 o'clock p. m. Balances of more than $1,000 are settled by New York exchange. When balances are under $1,000, a balance check is given which is put through the clearings of the next day. Consequently, no cash is handled in paying balances. Checks cleared are marked with a clearing-house stamp.

At St. Paul the regulations are modeled after those at Chicago and Milwaukee. The clearings are made at 10:30 o'clock a. m., and the average time occupied is seven minutes. Checks only are cleared. A clerk of the First National Bank of St. Paul, where the clearings take place, acts as manager. The "paid" stamp of the sending bank is the only distinguishing mark affixed to checks passing through the clearing-house. Balances are payable in coin, national bank notes, legal tenders, and gold or silver certificates. No silver dollars are ever offered by mutual understanding.

At Indianapolis the manager receives at the room of the association from members, between 12 o'clock noon and 12:15 p. m., the checks, drafts and notes to be exchanged, and immediately afterwards collects from or pays to each bank at its place of business the balances resulting from such exchange. No member is allowed to receive in payment a check on any Indianapolis bank not a member, and no paper payable at any bank not a member is allowed to pass through the clearing-house. All checks received by members after 1 o'clock must be certified. All paper cleared must bear the endorsement of the sending bank, either in writing or by stamp, as an acknowledgment of payment and not as a guarantee, except as to the genuineness of other endorsements. The maker of a check dishonored for want of funds is discredited, the members are all notified, and no uncertified check of such a person is allowed to pass through the clearing-house until his credit is restored by vote of the association. All notes and acceptances must be certified before passing through the clearing-house. The manager takes up the checks delivered to and by any defaulting member, and returns them. Expenses, except as provided for by fines, are paid by the banks in proportion to their capital and deposits. The manager is to be a notary and has the privilege of protesting such paper as the members have for protest, his fees being his only compensation.

At Hartford the business of clearing is done by the members in turn, each for one month at a time, some officer of the clearing bank being manager. The hour for clearing is 10 o'clock and five minutes, and the time occupied averages fifteen minutes. The debtor banks pay their balances to the clearing-house at or before 11:30 a. m. in checks on New York, except balances of less than $100, which may be paid in currency. The creditor banks receive their balances at 12 m. The matter cleared includes notes, drafts and checks, also bank notes of the

members to a very limited extent. All paper cleared must bear the written or stamped endorsement of the bank sending it. In case of default the other banks make up the deficiency as at New York and Boston. All checks not good must be returned to the sending bank by 12 o'clock noon.

At Minneapolis the clearings occur at 11 o'clock a. m. The constitution is not printed, but the routine appears to be in general similar to that at New York.

At New Haven, as at Hartford, the banks take turns, each bank acting as the clearing-house for three months. The exchanges are made at 9:15 a. m., and include checks, acceptances, notes certified the day before, and in fact everything in the form of an order on any member. Balances are to be paid by noon in drafts on New York.

At Memphis the exchanges occur at 9 o'clock a. m., and the time consumed by the manager in the adjustment of balances is about thirty minutes. In settlement of balances the manager draws his check on the debtor in favor of the creditor members in the following form:

MEMPHIS CLEARING-HOUSE,
MEMPHIS, TENN..... ....1899.

.....BANK.

Pay to G. in settlement of balances this morning Six thousand five hundred and fifty $\frac{25}{100}$ dollars.

$6,550\frac{25}{100}$. ..... . *Adjuster.*

Instead of writing the name of the payee in full, the initial letter or letters simply are used. The amount of checks brought by each bank is entered on a credit slip, and the amount taken away on a debit slip. This latter also contains additional rulings to show the balance due to or from the bank, and against the initials of each bank is written the amount of checks drawn upon it or in its favor to settle this balance. Balances must be settled in current funds. Checks only are cleared, and they are delivered in sealed envelopes designated on the outside as follows:

MEMPHIS CLEARING-HOUSE,

July 1, 1899.

U. $10,000 from Commerce.

That is Union and Planters' Bank $10,000, from the Bank of Commerce.

At Peoria the clearings are made at 11:30 o'clock a. m., and occupy about half an hour. The clearing matter consists of checks.

Members are to report upon balances resulting from the exchanges before 1 o'clock, after which hour the balance becomes the debt of the bank. Balances must be paid by the debtor banks at the counters of the creditor banks before 3 o'clock, in currency, unless arrangements have been made before that hour for payment in exchange on other points. Checks not good must be returned before 1:30 p. m.

At Portland the six national banks, without being formally organized as a clearing-house, settle daily at 10 o'clock a. m. The time occupied is about fifteen minutes. Portland checks only are included in the clearing. Balances are paid in legal-tender notes, or checks on Boston or New York.

The Worcester and Lowell clearing-houses are organized on the same plan. Each bank belonging to the association is required to make a deposit fixed by vote of the association with the clearing-house committee as its proportion of a clearing fund. This fund is deposited with one of the banks selected as the clearing bank, free of interest, as a compensation for services and expenses. The clearing bank is changed each year at Lowell. The cashier of the clearing bank is, ex officio, the manager of the clearing-house. No bank is allowed to make the clearings of a bank that is not a member. At Worcester the hour for making the exchanges is 12 o'clock noon, and the time occupied is about fifteen minutes. At Lowell the hour of clearing is 11 o'clock, and the time occupied is from seven to ten minutes. The clearing matter of both consists of checks, drafts and notes. At Worcester paper cleared is marked as follows: "Pay only through Worcester clearing-house to....." At Lowell no distinguishing mark is affixed. At the latter balances are paid by drafts on New York or Boston; at Worcester by checks on Boston.

At Springfield the exchanges occur at 11 o'clock at the Chicopee National Bank, and occupy about twenty minutes. One clerk for each bank performs the duties of messenger and settling clerk. All kinds of paper are cleared, each item being stamped with the stamp of the sending bank. Balances of less than $200 are paid in currency; if more than that by New York or Boston drafts.

At Columbus, Ohio, the representatives of the banks clear at the Board of Trade rooms in City Hall at 2 o'clock p. m. The exchanges occupy ten minutes, the adjustments twenty. Clearing matter consists of checks to which no distinguishing mark is affixed. Balances are paid by manager's checks on the debtor banks.

At Norfolk the banks select one of their number to be the clearing bank for one year, and the cashier of that bank is ex officio manager of the clearing-house. The hour for making the exchanges is 11 o'clock precisely. At 12:30 o'clock the debtor banks pay their balances at the clearing-house in currency, and the creditor banks receive their balances at 1 o'clock. Checks not good must be returned by 12 m. to the bank sending them, and must be satisfied by 2:30 p. m. All checks

presented in payment of notes and drafts (except when presented by the runner) must be certified by the bank on which they are drawn. Although the rules require the payment of balances in currency they are, as a matter of accommodation between the banks when exchange is plentiful, often paid by checks on New York, Philadelphia or Baltimore.

At Syracuse the exchanges take place at 10:20 a. m., and occupy five minutes, the paper cleared being checks, certified notes and accepted drafts. No distinguishing mark is affixed to paper cleared. Balances are paid as convenient within two hours following the clearing in drafts on New York.

Notwithstanding the space given to the foregoing particulars in relation to the various clearing-houses in the United States, many matters of interest have been necessarily omitted, while others of importance, familiar to those connected with clearing-house business, may have been overlooked. In the collection of such a variety of data from so many different sources, errors, both of omission and commission, are liable to occur. Enough has, however, been brought together to furnish material for suggestive comparisons as to the methods in use at the various clearing-houses. When all the clearing-houses, however unimportant their operations may seem, shall preserve full and accurate records of their business in its various details, such comparisons will shed increased light upon the movements of our internal commerce, and, still better, repay careful study.

CHAPTER XII.

FOREIGN CLEARING-HOUSES.

Of foreign clearing-houses, by far the most important is that of London, embracing twenty-seven banks, including the Bank of England, which only became a member about twenty years ago, and clears only on one side, that is, its charges on other banks. These, being obliged as members of the clearing-house to keep an account with the Bank of England, pay in their charges against it to the credit of their account. A considerable number of London banks in high credit have so far been refused the privilege of membership in the clearing-house. Indeed so exclusive was it formerly that until 1854 the joint stock banks were refused admission. The West End and Scotch banks and others not yet admitted, clear through members.

The number of daily clearings at London is three, as follows:

ORDINARY DAYS.

"Morning clearing to open at 10:30. Drafts, etc., to be received not later than 11. Morning clearing must be closed by 12.

"Country clearing to open at 12. Drafts, including returns, to be received not later than 12:30. Country clearing must be closed by 2:15.

"Afternoon clearing to open at 2:30. Drafts, etc., to be received not later than 4. Returns to be received not later than 5, excepting on settling days, when the last delivery shall be at 4:15, and returns at 5:15."

FOURTHS OF THE MONTH.

"Morning clearing to open at 9. Drafts, etc., to be received not later than 10. Morning clearing must be closed by 12."

Country clearing takes place as on ordinary days, and afternoon clearing as on settling days, except when the fourth of the month occurs on Saturday, in which case the hours are as on ordinary days.

SATURDAYS (NOT BEING FOURTHS).

"Morning clearing to open at 9. Drafts, etc., to be received not later than 10. Morning clearing must be closed by 11.

"Country clearing to open at 11. Drafts, including returns, to be received not later than 11:30. Country clearing must be closed by 1:15.

"Afternoon clearing to open at 1:30. Drafts, etc., to be received not later than 3. Returns to be received not later than 4."

In explanation of certain terms used at the London clearing-house it may be stated that an "article" is a bill, "or check or dividend warrant, or banker's payment slip, or memorandum for country notes, or indeed any article that is paid into the clearing for settlement there."

"A 'charge' is a batch of articles (i. e., bills, checks, bankers' payments, etc.) sent into the clearing-house by one banker to be charged by him against another.

" 'Returns' are any articles which may be returned into the clearing-house unpaid, from want of funds, irregularity of endorsement, no advice, or from any other cause."

The officer having charge of the clearing is called an inspector, and not a manager, as in this country. The London clearing-house has two inspectors. Instead of blanks, such as are used at American clearing-houses, books are used. The checks and bills to be presented by any one clearing banker upon any other are entered at home in the "Out-clearing book." There is also the "In-clearing book," in which are entered the amounts of the checks received in the exchange; the out returns, the in returns, the clearing balance book, the clearing difference book, etc.

The London clearing-house is a plain oblong room with rows of desks in compartments round three sides and down the middle. A small office for the two inspectors stands at one end. Each bank sends as many clerks to the house as may be requisite for the rapid completion of the work, some of the banks having as many as six clerks. The mode of conducting the business, as described in the last edition of "Gilbart on Banking," is substantially as follows:

The matter cleared at the morning clearing consists, as a rule, of bills and marked checks. These bills are bills which have been discounted by the bank or held for collection on account of customers. During the afternoon of the day before they fall due, they are passed from the bill department into the clearing department, so as to let the clearing clerks get an early start next morning. On the morning of the day on which they mature, the clearing clerks sort them into various packages, one for each of the other twenty-five (or if the Bank of England twenty-six) clearing banks. Thus those which fall due at the London and Westminster Bank are sorted into one parcel, and the same in other cases. The amounts only are then entered in the spaces left under the respective headings of the other banks in the Morning Bill Book. The clearing clerks then sum up the entries in this book, and check the aggregate of the various totals with the sum supplied to them on a memorandum by the bill department of the bank. If right, their clearing work is checked so far, and they then transfer the

various totals into the out-clearing book. Having done this they next proceed to deal with the "marked checks." These are checks which have been paid in by customers on the afternoon of the day before, too late for the day's clearing. Every afternoon each bank sends these checks out to the other banks upon which they are drawn to be marked for payment. This marking consists of the initials of one of the cashiers put upon the checks as an acknowledgment that they are all right and will be duly paid in the clearing next morning. The banks send out these checks to be marked chiefly for the convenience of their customers, but partly for their own protection in case a cashier might pay against an uncleared check which might afterwards prove to be bad. If a banker chose not to send out such checks for marking, no question could be raised by his customer as to want of due presentation, because it is distinctly stated on the pay-in slips with which each customer is supplied, or the customer is acquainted in some other form, that checks not paid in by 3:30 may not be cleared the same day. These marked checks are sent to the clearing-house the first thing in the morning along with the bills, and the two together form what is termed the "first charge." Some of the banks try, and some manage, to get the remittances received in their morning letters into their first charge; but as the morning clearing closes for delivery at 11 o'clock, none but those bankers who begin business very early can put through so large an amount of work with any degree of satisfaction in time for the morning clearing.

Although the afternoon town clearing nominally begins at 2:30 p. m., and closes for delivery at 4 p. m., the clearing-house clock is always kept five minutes behind Greenwich time, so that the representatives of the various banks have always five minutes grace allowed them.

To the afternoon clearing, which is the heaviest in the day, the banks, as a rule, send in some six or seven "charges." But, in exceptional times, for instance, during the progress of dividend payments, or when, from any cause, business is particularly brisk, many more charges are sent in. But in ordinary times about half a dozen is the usual number. At the opening of the afternoon clearing the first charge delivered is usually composed of remittances received in the morning letters. Then about 3 o'clock the second charge is sent in, and is composed of the checks and other vouchers received over the counter during the morning by the cashiers for the credit of customers. Then, about every twenty minutes or so, from 3 o'clock till 4, charges of the same description are sent in. At two or three minutes past 4 (by the bank clock) a final charge, consisting of a few articles of large amount, or articles which, for some reason, the banker may be particularly anxious to clear, may be sent in. There is thus a clerk running between each bank and the clearing-house from time to time, delivering the charges he has upon the other banks.

The first charge sent to the clearing-house during the day is marked on the back of the last check thereof, with the total amount which in our clearing-houses is entered on the exchange slip attached to the checks.

Country notes are not exchanged at the clearing-house, but are taken round to the bankers who are agents for the country bankers, and exchanged for tickets, which are passed through the afternoon clearing.

As the clerks reach the clearing-house with their successive charges they distribute their packages around the room to the desks of the clerks representing the several paying banks. These clerks, corresponding to our settling clerks, immediately begin to enter these charges in the In-clearing Books, in columns bearing at the head the name of the presenting bank. As soon as this is done the vouchers are immediately sent away to the bank at which they are payable, where they are critically examined and, if correct, posted in the ledgers. In case there is cause for refusing payment, either for want of funds, irregular endorsement, or irregularity of any kind, they are sent back to the clearing and returned to the delivering banker with a distinct answer marked upon each check of the cause of the return. These returns must be sent back to the clearing-house not later than 5 p. m. on ordinary days, and not later than 5:15 in any event, and are entered again as a reverse claim by the bank dishonoring them on the bank presenting them. The clearing clerks do not wait for the returns before they begin the balancing for the day. The moment the clearing-house clock strikes 4 (five minutes past by Greenwich time) they begin the process of balancing, leaving the returns, if any, to be entered afterwards. Notwithstanding the vast daily transactions of the London clearing-house, the aptitude of the clerks for their particular work renders errors of infrequent occurrence. The system of marking the first and largest charge on the back facilitates the balancing by the opportunity it gives to each clerk of checking the major part of his work early in the day.

The In-clearing Book of each clerk ought to agree, of course, with the portions relating to him of the Out-clearing Books of the other clerks. The Out-clearing Book, it will be remembered, is written up inside the bank, and carried to the clearing-house at 4 o'clock for the purpose of checking. Each clerk compares his work with that of the other clerks, one by one. If he is right with all he then balances, and there is no further trouble; but if he is wrong with any, to any large amount, he is bound to discover his error before leaving the house. The total amount of the morning and country delivery must be agreed by each before leaving the clearing-house. As to the other clearing, a difference of £1,500 over (the in-clearing clerk being always supposed right), or of less than £1,000 short, is allowed to stand over until the following day if it cannot be readily discovered. Considerable con-

fusion sometimes arises from shouting corrections across the room from one clerk to another.

The country clearing was introduced by Sir John Lubbock in 1858. Every bank in London receives during the day a large number of checks upon country bankers. Upon these checks the name of the London agent is printed. Every clearing banker in London is the agent for one or more country banks. Thus the London and Westminster Bank is the London agent for the North and South Wales Bank, the Nottingham and Notts Bank, and Hall, Lloyd & Co. On the checks drawn on these country banks the name of the London and Westminster Bank is printed as their respective agents. So when the clearing clerks of each bank get such checks from the cashiers, correspondence department, and other sources, they proceed to arrange them for clearing as they do town checks, sorting them and putting them up in packages according to the London agents at which they are payable. No credit is given in the clearing for these country checks on the day on which they are delivered. The amounts are simply settled by the delivering clerks and the receiving clerks, and then the articles are taken to the respective banks, whence they are sent by post the same evening to the country bankers by whom they are payable. If these checks, on reaching their destination, are found to be in order, they are credited in account with the London agent, and advised; but if any of them are not in order, either from insufficient funds or irregular endorsement, or any other cause, such irregular checks are returned direct to the banker whose crossing they bear. All country checks not returned or advised by the morning of the third day are assumed to be paid, and credit is accordingly given for them in the clearing of that day and the amount is settled for, along with those advised paid, in the final balance. All country checks held by London bankers, returned unpaid, must be returned into the hands of the clerk representing the delivering bank by 12:30 on the third day, and they are simply deducted from the total of the country checks on the day of settlement. The balance only of the country clearing is brought into the final settlement on each bank's town clearing balance sheet, as will be seen by reference to the form given below. "C. H." on the same form means clearing-house, and is meant for the adjustment of differences, and "Bank" means Bank of England.

SPECIMEN FORM OF A LONDON BANKERS' CLEARING BALANCE SHEET.
THE NATIONAL PROVINCIAL BANK OF ENGLAND.

Debtors.					*Creditors.*		
£	s.	d.		£	s.	d.
			Alliance			
			Barclay			
			Barnett			
			Bosanquet			
			Brown			
			Central			
			City			
			Consolidated			
			County			
			Dimsdale			
			Fuller			
			Glyn			
			Imperial			
			Joint			
			Bank			
			London & South Western			
			London & Westminster			
			Martin			
			Metropolitan			
			National			
			Prescott			
			Robarts			
			Southwark*			
			Smith			
			Union			
			Williams			
			Country Clearing			
			C. H			

*This is the Southwark branch of the London and Westminster Bank which clears separately.

This sheet when filled up shows the account of the National Provincial Bank of England with all the other clearing banks, their names being abridged to save space. It nearly corresponds with the settling clerk's statement in the New York clearing-house, the name of the bank whose accounts it represents being given at the head and omitted in the body of the statement.

Balances are settled at the close of each day by transfers on the books of the Bank of England, at which a special account is kept, called the "Clearing Bankers' Account," in addition to the separate account of each bank. When the result of the day's clearing is a balance against one of the banks, Barclay & Co., for example, the transfer is made in the following form:

SETTLEMENT AT THE CLEARING-HOUSE.

LONDON, JULY 1, 1899.

To the Cashiers of the Bank of England:

Be pleased to transfer from our account the sum of fifty-one thousand two hundred and one pounds 4s. 2d., and place it to the credit of the account of the clearing bankers, and allow it to be drawn for by any of them (with the knowledge of either of the inspectors, signified by his countersigning the drafts).

£51,201 4s. 2d. BARCLAY & CO.

For which the bank signs the following certificate:

SETTLEMENT AT THE CLEARING-HOUSE.

Bank of England: LONDON, JULY 1, 1899.

A transfer for the sum of fifty-one thousand two hundred and one pounds 4s. 2d., has this evening been made at the bank from the account of Messrs. Barclay & Co. to the account of the clearing bankers.

£51,201 4s. 2d.

FOR THE BANK OF ENGLAND.

This certificate has been seen by me,

.....Inspector.

On the other hand, when the balance is in favor of the bank, the National Provincial, for instance, the following forms are used:

SETTLEMENT AT THE CLEARING-HOUSE.

LONDON, JULY 1, 1899.

To the Cashiers of the Bank of England:

Be pleased to credit our account the sum of two hundred and thirty-six thousand and forty-four pounds 2s 2d. out of the money at the credit of the acount of the clearing bankers.

FOR THE NATIONAL PROVINCIAL BANK OF ENGLAND,

£236,044 2s. 2d. A. B.

Seen by me.....

Inspector at the Clearing-house.

For which the bank gives the following certificate:

SETTLEMENT AT THE CLEARING-HOUSE.

Bank of England: LONDON, JULY 1, 1899.

The account of the National Provincial Bank of England has this evening been credited with the sum of two hundred and thirty-six thousand and forty-four pounds 2s. 2d. out of the money at the credit of the account of the clearing bankers.

£236,044 2s. 2d.

FOR THE BANK OF ENGLAND.

As the balances paid and the balances received are the same (errors excepted), so the amount credited to the clearing bankers' account each day must be the same as the amount debited. It is only a means by which the debtor banks pay the creditor banks on each day by a simple transfer, without handling any cash. Previous to 1854 balances were paid in cash. The per cent. of balances to clearings is considerably greater at London than at New York, and has shown a marked increase. In 1810 the balances were 4.68 per cent. of the clearings; in 1839, 6.94 per cent., and in 1879-80, 12.16 per cent., as compared with 4.96 per cent. at New York in 1879. The balances are probably greater on account of country clearings.

By having three clearings instead of one, and allowing banks to bring so many successive charges at intervals to each clearing, instead of one charge delivered precisely at a given hour, the clearing-house

work occupies very much more time than at New York, where the transactions are considerably larger. In fact, substantially, the whole day is spent by the clearing clerks at the clearing-house, or in going to and from it, whereas at New York an hour, or less, for each clerk and messenger suffices for the whole work. On the other hand, by having so many clearings, and the heaviest at the close of the day, mercantile paper sent through the clearing is more promptly presented.

The Manchester clearing-house was established in 1872, and has, since that date, been under charge of Mr. D. T. Brewer, as inspector. The work there is performed on loose forms, and not in account books, as at London. The work is done more nearly on the plan prevailing at New York, which is, in several respects, an improvement on that prevailing at London. There are two clearings daily at the branch of the Bank of England, the first at 11:15 a. m. (a preliminary one), and the second at 2:15 p. m. The clearing is quickly accomplished, and "goes on with noiseless ease, strongly contrasting with the turmoil of the London house." This is, of course, owing in part to the immensely larger transactions effected at the latter. At Manchester each of the twelve clearing bankers is represented by a single clerk, who delivers and receives the vouchers and adjusts the accounts. The balances for the day are settled after the close of the second clearing by transfers on the books of the Bank of England, the forms being very similar to those used at London. The clearing-house at Newcastle-on-Tyne was established January 2, 1872, and embraces seven members. On ordinary days there are three clearings daily, usually at 11:15 a. m., 2:15 and 3:15 p. m. On January 1 there is one at 10:30 a. m. On Saturdays and holidays there are two clearings, usually at 11:15 a. m. and 1:15 p. m. Articles dishonored are returned through the clearing-house on the same day, not later than forty-five minutes after the commencement of the last clearing. The methods of doing the business and paying balances are similar to those in use at Manchester. The total of its transactions in twelve years has been £332,470,125, as compared with £1,043,360,000 at Manchester. The operations of the Newcastle clearing-house are conducted at the branch of the Bank of England, under charge of a committee, of which the agent of the bank—at present Mr. J. B. Fairley—is chairman.

There are also clearing-houses at Liverpool, Edinburgh and Dublin. At Edinburgh there is one general clearing daily, opened at 1 and closed for delivery at 1:15 p. m., except on Saturday, when it opens at 11 and closes at fifteen minutes past. The Bank of Scotland and the Royal Bank of Scotland undertake the settlement each alternate month. There is also a note exchange daily at 10 a. m., except on Monday, and a second exchange at 1:30 p. m. on Saturday for large notes only. On Monday and Thursday the balances are included in the general settlement of the exchange and clearing. On other days the

settling bank receives from the debtors and gives to the creditors exchange vouchers for the respective balances within one hour after the closing of the clearing-house, and these vouchers are brought into the next clearing, and bear interest, included in them, at two per cent. until that clearing. Each document cleared, except notes, is to bear a clearing-house stamp, containing the name of the clearing bank and the date, also the stamp of any district branch at which it may have been cashed. Documents dishonored are settled between the banks, unless drawn on a branch, in which case they may be sent through the clearing the next day. These banks use clearing books having every alternate sheet perforated down the inside margin. The charges against the other banks are written up in pencil on the unperforated sheets, and by the aid of a sheet of carbonized paper placed underneath, an impression of the items is taken on the perforated sheets. These duplicates are then torn out and handed over with the corresponding articles to the clerks of the other banks, who simply compare the one with the other, so as to save the time and trouble of taking down afresh in their own books the amounts of the various articles. When the clerks return to their respective banks, these duplicates are gummed upon the margins from which their own delivering sheets had been detached, preserving a convenient record of the articles delivered to, and the articles received from each bank following each other. All abstracts of totals, balances and the like, are kept in a permanent form, written in ink. The paid-up capital of the Edinburgh clearing banks is £8,250,000.

The Dublin clearing-house comprises four banks—all the banks of issue in Ireland—and was established in 1845. The capital of the four banks is £5,040,000. There are two clearings—in the forenoon, for notes and checks at 10 o'clock; afternoon, final clearing for checks at 2 o'clock. On Saturdays the hours are 9:30 a. m. and 12 m. Banks are admitted to the exchange for fifteen minutes after these hours. Balances are paid in exchequer bonds, except for fractional parts of £500, which may be paid in notes of the debtor bank, the exchequer bonds to be used for no other purpose, and to be stamped "Dublin Exchanges." Each bank is required to maintain its quota of a total of £400,000 of these bonds. The exchanges are made at the Bank of Ireland. All orders payable on demand, whether in Dublin or in country towns, are to be passed through the clearing-house. Documents returned dishonored are not allowed to pass through the clearing-house. Those banks in Dublin which are not banks of issue are not members of the association, but deposit the checks they hold on other banks with the Bank of Ireland, with which they keep an account.

In preparing the foregoing account of British clearing-houses free use has been made of "Gilbart on Banking" and Jevons' "Money and the Mechanism of Exchange," and of a series of articles recently published in the London Bankers' Magazine on the clearing-house system. The Liverpool Clearing Association was formed, according to United

States Consul S. B. Packard, about 1878, and embraced in 1882, ten of the Liverpool banks, leaving six establishments, mostly private banks, outside. These banks keep clearing accounts with each other of all checks drawn on any of their number. Each bank every evening makes up in its own books the accounts with each of the other clearing banks, and settles the balances due from or to it by means of transfers through the Bank of England's Liverpool branch, with which all the clearing banks keep an account. The capital of the Liverpool clearing banks, exclusive of two private banks, was, in 1882, £3,815,110.

Clearing-houses were established at Paris and Vienna in 1872. At the latter, in fact, there are two clearing-houses, the bankers' clearing-house and the Arrangement Bureau, or Stock Exchange clearing-house. The latter alone has transactions of any great magnitude. The volume of the check exchange is small, as most of the public find bank notes cheaper and more convenient than checks, which are subject to a tax of two kreutzers (about one cent) each, regardless of size. The Paris clearing-house has been already noticed. In 1876 a system of check exchange was started in Berlin, and developed to such proportions that in 1883 clearing-houses were established in Berlin (April 2), Frankfort-on-the-Maine (April 25), and Cologne, Stuttgart, Leipsic, Dresden, and lastly Hamburg, in the course of the summer. The President of the Imperial Bank Directorium states that these institutions are not widely different from the clearing-houses of London and New York. The most important of the German clearing-houses are those of Berlin, Hamburg, and Frankfort-on-the-Maine, the others falling far behind these. Previous to last December the volume of transactions at these clearing-houses was not published. For December the aggregate for all was 887,546,700 marks, and in January, 1884, 930,707,700 marks, or at the rate of 11,168,492,400 marks—or about $2,680,000,000—for the year. This is a little more than Chicago, and a little less than Philadelphia. There are fourteen clearing-houses in Italy, located at Milan, Leghorn, Genoa, Catania, Rome, Bologna, and other places. The transactions of these six clearing-houses amounted, in 1884, to 1,685,345,781 f., or about $325,000,000, those of Milan and Leghorn being the only ones of importance.

The banks' clearing-house of Melbourne, Australia, is analogous to the other British clearing-houses. On ordinary days there are six clearings; on Saturdays four; on Mondays eight; on Tuesdays five. An exchange slip accompanies each charge delivered at the clearing-house. There is a special clearing for checks returned dishonored for any cause. Balances are paid every Tuesday, all even sums of £500 and upwards in sovereigns or parchment vouchers. These vouchers are issued against a deposit of sovereigns at one of the banks under the care of trustees, and are of denominations of £500 and £1,000. The total issue is £500,000. All sums under £500 are settled by checks, which are paid into a clearing-house account kept at one of the banks. Bank notes have been included in the clearing since 1876.

CHAPTER XIII.

COUNTRY CLEARINGS.

At London, as already stated, the country clearing-house has been in operation since 1858. But in this country clearing methods have hitherto been applied only to transactions among banks situated in the same place or its immediate vicinity, though susceptible of extension to transactions between different monetary centers and possibly even to international settlements. The establishment of some system for the more speedy and economical collection of country checks is a matter of growing importance owing to changes in the methods of doing business. Formerly under the State bank system it was the almost universal custom for merchants in the interior of New England to pay their bills in Boston by sending the money or a check on a Boston bank which they obtained from their nearest country bank, paying for the same the usual charge for exchange. But in later years a different practice has been growing up. The country trader now sends his Boston creditor a check upon the country bank where he keeps his account. The country banks, of course, expect to pay these at par at their own counters, but they will not as a rule provide funds to meet them in Boston without a charge for exchange, varying from one-tenth of one per cent. on the larger checks to one-quarter or even one-half of one per cent. on the smaller one. So keen is the competition among traders, however, that these checks are taken by them at par, and the banks driven also by competition usually do likewise. To avoid the charges made by the country banks, checks are frequently sent home by the most circuitous routes, traveling about from city to city and from bank to bank for several days. An instance is given where a check for $48 on a bank in Mt. Gilead, Ohio, deposited at Columbus, was sent successively to Cincinnati, Cleveland, Urichsville, Coshocton, Newark, back to Columbus, and then to Cardington, before reaching its destination, being out eight days and traveling 650 miles when sixty miles would have sufficed. As the check was not paid it had to be sent back through the same channels. Another case has been given of an item returned protested nineteen days after it started for presentation toward a paying bank twenty hours distant. It is easy to see how by these delays endorsers may be discharged to the serious loss of some

holder of the check, not to mention other contingencies. It would be difficult to show that due diligence was used in presenting a check by such a circuitous route. It is said, too, that these cases are by no means unusual.

The growing importance of the subject led to the consideration of the remedies to be adopted at the annual meeting of the Boston clearing-house association, April 9, 1877. A committee was appointed consisting of Messrs. George Ripley, John Cummings, Edward Sands, Edward L. Tead and George R. Chapman, representing respectively the Hide and Leather, Shawmut, Traders' Exchange and Merchants' National banks. This committee in August made a majority report signed by Messrs. Ripley, Cummings, Sands and Chapman, and minority report signed by Mr. Tead. From the majority report it appears that the daily outstanding balances due to fifty of the fifty-one associated banks on account of New England country collections then amounted to $2,187,329. This had increased in November, 1883, to $4,300,000. The number of checks daily sent out in 1877 was 4,080, probably increased in like proportion, and the number of letters sent daily was 1,670, although there were ony 272 towns in New England which had national banks. The amount paid yearly for exchange and expenses was computed to be $119,647, and interest on the outstanding balances at five per cent. reached $109,366, making a total annual cost of $229,013, increased to $398,000 in 1883. The cost of collecting each check was found by the committee to be, for exchange, .045 of a dollar; other expenses, .048; interest, .085, giving a total of .178 of a dollar, or about nine times the United States stamp tax on a check, which was justly complained of by business men and banks alike. The cost for each letter was forty-four cents—eleven cents for exchange, twelve for expenses, and twenty-one for interest. Under the arrangements then and still existing, remittances from country banks vary in frequency from once a week to once a month, in exceptional cases perhaps oftener. It was believed that by a consolidation of the business the amount of the outstanding balances might be reduced one-half by more frequent remittances; that the item of exchange largely made up of charges upon small checks of less than $200 could be very much reduced by having the remittances made in larger sums; and that the sending of 272 letters daily, one for each town having a national bank, would suffice, thereby saving 1,400 of the 1,670 letters daily sent out, and largely reducing the clerical expenses. The danger of loss resulting from delay in presenting checks would also be reduced to a minimum by the introduction of a better system. The majority of the committee reached the following conclusions:

"1. That the business of making collections throughout New England, as now conducted, is attended with great unnecessary labor, risk and expense.

"2. That its extent, though now large, will inevitably increase with the growth of our city.

"3. That the only way materially to reduce the labor, risk and expense connected with it is to consolidate the business."

To this end they recommended the establishment of a national bank to be used as an agency in making such collections, the stock of the bank to be subscribed by members of the clearing-house association.

The minority report combats the proposed plan as exposing too much the business of each bank, and as not reducing the expenses as much as the majority anticipated. It was shown that ten banks having the largest foreign bank accounts, made more than one-half of all the New England collections at an expense of 5⅜ cents each, exclusive of interest, and that the superior facilities acquired by these banks after years of experience, could not be transferred to the proposed collection bank, but would be irretrievably lost to themselves by the proposed change. The indirect advantages derived by the banks from their collection business, in enlarged acquaintance and the maintenance of a more lively interest between the Boston banks and those of the country, were deemed a full equivalent for the necessary labor and expense involved.

It was found, on inquiry, that as a national bank cannot subscribe to the stock of another national bank, the proposed plan was not feasible. The steady increase of the business, however, again forced the matter upon the attention of the association. Another committee was chosen, consisting of Messrs. George Ripley, John Cummings, Charles A. Vialle, A. L. Newman and Walter S. Blanchard, representing, respectively, the Hide and Leather, Shawmut, Republic, Commonwealth, and Metropolitan National banks. This committee, in November, 1883, reported unanimously in favor of establishing an agency similar to the clearing-house, which should have no capital and make no charge for its services, but whose expenses should be borne by the banks in proportion to the business done. On account of the expense attending such an organization this plan was defeated. The whole matter remains, therefore, in its previously unsettled condition. It has been suggested that the banks contract with one of their number to undertake this business for all, as more economical than the proposed clearing-house for country checks, since an established bank "is already in possession of the 'plant' necessary for the transaction of such business, and could make money out of it, with a charge for exchange which would not support an independent clearing-house." The unwillingness of the banks to expose their business to one of their number, or to give the collecting bank the advantage it would thus enjoy for obtaining country deposits, is likely to interpose a serious obstacle to the adoption of this plan.

The matter of country collections has also been discussed by the bankers of Pittsburg and vicinity, where Mr. E. B. Isett, President of

the Altoona Bank, submitted a plan for the formation of a clearing-house among the country banks themselves, at some central point, by which the daily settlements could, it is claimed, be effected with nearly as much celerity for a district reached by one day's mail as in the clearing-house of a city. Such an institution could but be a source of union and strength to the banks themselves, as well as a great convenience to the business community. It would enable the banks to exert a coercive power over those that refused to take part in the movement by rejecting their checks. These clearing-houses would furnish an easy means of communication between banks in different parts of the country, and establish on a permanent basis, the system of par redemption for country checks at certain central points. The great difficulty with this plan is to arouse the country banks to a sense of their duty in the matter. Under the present system they enjoy, at the expense of banks at the great centers, all the advantages of par redemption of their checks. It is not just that the city banks alone should bear this expense. The receipt of country checks at par by banks in the great cities is a matter of common interest, not to them alone, but to the country banks and to their customers alike, and all should be required to share the necessary cost.

The commercial unity of the country demands a recognition in all business arrangements. Isolated action on the part of individual banks cannot permanently cope with the problem now before us. Concerted action among the banks at the principal commercial centers is necessary. If all cannot be induced to unite at first, let enough join in some common movement to give it a strength and prestige that shall gradually bring all into the arrangement. Those who are familiar with the history of the Suffolk Bank system for the par redemption of New England bank notes know what bitter opposition that system at first encountered on the part of the country banks. The Suffolk Bank, with the six banks which first inaugurated the movement, was styled in derision the "Holy Alliance," and sometimes the "Six-tailed Bashaw." Yet the system finally triumphed over all opposition, and became firmly established, to the great benefit of the country banks themselves. For forty years this system gave a unique and peculiar character to New England banking, by virtue of which New England bank notes attained, even in remote parts of the Union, a credit which was frequently refused to the issues of the local banks. The country banks will, no doubt, now cling to the small benefits they derive from the delays in presenting checks, and the charges they impose for exchange, until they can be made to take a broader view, and measure at their true value the indirect advantages which they themselves will realize from a comprehensive and liberal policy in extending increased business facilities to their customers. The internal commerce of the country should not be subjected to a tax on transactions between city and country nine times as great as the stamp tax on checks. This is one of the

very evils that existed in England before the establishment of the country clearing. The latter has proved a complete remedy there as it would no doubt here. The details of some working plan must be elaborated by the bankers themselves, but that business is fast outgrowing the present system, if it has not already outgrown it, is a proposition which will receive very general assent.

As some of the clearing-houses have until within a few years made no returns, while others have only recently begun to make up their statements by calendar years, an entirely accurate comparative statement cannot be given. The following shows approximately the stupendous growth of the system in this country:

	No. of Associations.	*No. Reporting.*	*Aggregate Exchanges, United States. Millions.*	*Exchanges Outside New York, Millions.*
1853	1	1	*$1,304,9	
1854	1	1	5,798,6	
1855	1	1	5,673,7	
1856	2	2	8,404,2	$1,057,4
1857	2	2	8,591,4	1,395,3
1858	5	3	7,215,7	1,839,5
1859	5	3	9,069,3	2,470,5
1860	5	3	10,022,1	2,628,2
1861	6	4	7,507,4	1,991,0
1862	6	4	10,120,1	1,885,3
1863	6	4	20,442,4	3,014,7
1864	6	4	30,053,5	4,413,4
1865	8	5	30,437,0	4,579,0
1866	11	7	36,235,9	4,769,4
1867	11	7	30,322,2	4,511,0
1868	12	7	36,079,7	4,920,0
1869	14	9	41,157,1	5,616,0
1870	14	9	32,849,7	5,763,4
1871	16	10	37,200,5	6,557,5
1872	20	12	43,581,5	7,212,0
1873	21	13	37,686,6	7,846,2
1874	23	14	31,822,1	7,372,0
1875	23	15	32,339,7	8,025,9
1876	26	18	29,579,8	8,103,2
1877	27	23	31,944,2	8,143,5
1878	27	24	30,133,1	7,732,0
1879	28	24	38,591,2	9,355,5
1880	29	26	50,113,9	11,499,5
1881	30	27	63,414,6	14,037,7
1882	30	29	60,877,4	13,960,5
1883	31	31	51,827,1	14,392,8
	Total.....	——	$870,396,6	$175,072,4

*Three months only.

PART IV.

LOAN AND TRUST COMPANIES.

CHAPTER I.

HISTORY AND SCOPE OF LOAN AND TRUST COMPANIES.

Loan and trust companies may, with propriety, be termed American institutions. They had their birth in this country. Charters under which some are working to-day date back sixty to seventy years. One corporation in Philadelphia, doing a loan and trust business, was organized in 1812, and another in 1832. In New York one was granted a charter in 1822, and another in 1830. But the great majority have come into existence within the past twenty years. Twenty-five years ago but few of the loan and trust companies now doing business were in existence; hence it may be said that they are a modern institution. In many of the larger cities one or more may now be found. In New York there are eleven, in Philadelphia nine, in Boston eight, and in Chicago four, while in many prominent commercial centers there are none.

The original design of the early corporations was that of insuring lives and granting annuities. The business of holding trusts and procuring capital for various enterprises was a secondary consideration. Life insurance with some of the older companies was looked upon as the chief source of revenue. But the tendency of business toward specialization has had its influence upon these great financial corporations, as it has upon almost every department of business and social life. The business of life insurance has become a gigantic enterprise of itself, far surpassing in financial importance the operations of loan and trust companies. It is one, however, which does not come for consideration within the limits of this treatise.

The usefulness in the financial world of loan and trust companies is well understood. In some respects they are similar to banks; in others they are widely different. They receive deposits and make loans, but they do not issue currency nor undertake the general collection of commercial paper. The purposes for which they are organized and the services they perform are numerous. The scope of their business has broadened to correspond with their growth of capital and to

keep pace with the vast sums of money they have charge of. By the great breadth of their charters they accept and execute all kinds of trusts. They act as registrars and agents for the transfer of stocks and bonds, as trustees for corporations, and as executors, administrators, guardians, and receivers of money for courts in complicated litigations. They do a general financial business for bankers and others, make investments, collect interest, and perform many other financial services. They are organized under special charters granted by the legislatures of the respective States in which they are located.

CHAPTER II.

HOW BUSINESS IS CONDUCTED.

A number of persons desire to construct gas works. The city where the works are to be built promises a liberal support to the enterprise. The project has been fully discussed by the business men and property owners of the place, and a number of them decide to combine their efforts in carrying it through. To build the works and lay the pipes requires a large expenditure of money. It is learned that for a good part of the necessary capital outside assistance must be asked. There is nearly always plenty of money for all such enterprises, provided it can be shown that the security is ample. In the large financial centers, it is known, there may be secured the desired means at a fair rate of interest when the investment can be shown to be a safe one. What steps are best to be taken? The promoters of the scheme propose to organize a joint stock company.

Estimates have been made, which show that fifty thousand dollars will make a reasonable start towards carrying the project along. A canvass shows that capital stock to this amount would be subscribed for. The company is formed, a charter granted, and permission given by the city authorities to lay and maintain the pipe lines. Further estimates are now made, and it is shown that to build the works and lay sufficient piping for present needs there will be required, besides the already paid-in capital of the company, about two hundred thousand dollars. This must be secured by a loan.

The company decide to issue first mortgage bonds for the amount of money needed. If they can find persons in their own city or among the stockholders who are in position and are willing to loan the money they need not call for outside assistance. But in this they do not succeed. They then must go to some financial metropolis where money is seeking investment. Here they are confronted with the inquiry: How do we know that our investment will be a safe one? What assurance have we that your company is properly organized, and that the proper authority has been given for it to make this loan? And each person who might be willing to purchase some of the bonds demands the right to have an agent examine into all the facts and report upon the

conditions, before the money could be paid over. In this case the company must pay the expenses and fees of the agents and lawyers. They see such a course is going to make it exceedingly expensive. But the money must be procured, and what shall be done?

A happy thought occurs to them. They will go to a loan and trust company. They visit one of these institutions, and learn that they will have no trouble about securing the required loan, if a clear title to the property to be mortgaged can be shown, and the other usual requirements of investors in such securities are found satisfactory. "We will transact your business for you," says an officer of the trust company. "In the first place we must put the matter in the hands of our attorneys, who will report upon the legal status of your company. We must know how much of your capital has been paid in. The amount of work you have done in the new enterprise. What your assets and liabilities are. The recording of the mortgage bond of your company may be left with us, or our attorneys will look to see that it has been properly attended to. We will issue the bonds from our institution, make all transfers, and pay the interest for you when it becomes due. In fact, we will transact the whole business, turning over the money from the sale of your bonds as it is paid in. How much money do you want to procure?"

"We wish to procure two hundred thousand dollars, or what will come from a two-hundred-thousand-dollar bond. We have invested about forty thousand dollars. The money procured is to be applied in completing our works and in extending the pipe lines."

"If you have invested only about forty thousand dollars and are free of debt, we would suggest that the loan be made in installments. We could not undertake to issue the whole amount of the bonds, excepting as the work progresses, and until we are assured that the money received for bonds issued had been properly applied in the construction of the works. We would issue, say, twenty-five thousand dollars as the first installment, then we could issue fifty thousand dollars as the second installment, and so on, increasing the issue acording to the increase in the value of the security offered."

"And on what terms would you undertake this business?"

"We would charge you by the year, according to the amount of business transacted, or liable to be transacted. You would pay for the fees necessarily incurred at the start, and thereafter probably two hundred to three hundred dollars a year, according to circumstances and agreements "

An agreement is entered into. The officers of the gas company are put to no further inconvenience or delay. When they inform the money-lender that the ——— Loan and Trust Company have charge of their mortgage business, and are issuing the bonds, no inquiries are made as to the legal status of the company or the mortgage. The capital is secured, and the company pushes ahead with its work.

Loan and trust companies have often proven of great service in the construction of railroads. Of course railroads would be built and bonds disposed of without the mediation of such agencies, but the trust companies have greatly facilitated the work and reduced the expenses.

A party of gentlemen, for instance, organize a company to build a railroad which shall run through several States. They cannot among themselves raise the necessary capital. They are willing to risk a reasonable amount of money in the project, if the amount required to complete the road can be secured after their own investment shall have been expended. They find, among wealthy capitalists, persons who are willing to advance the funds, but they do not wish to assume any risks as stockholders. They prefer to loan the money at a fair rate of interest. If the scheme is successful the projectors can pay the money back and own the property, thus derive all the advantages accruing from their wisdom and risks.

The following is the form of a receipt and transfer voucher:

No.....	New York, 19....
.....	For value received .....do hereby assign and transfer
Folio	unto. .....
.....	.....
Folio Certificates.	.....Shares of the *Capital Stock* of
Canceled No.	the* .....Company now
Issued No.....	standing in.... .....name on the books of said
	company.
	.....

*The title of the corporation printed in full.

When the promoters of the project visit a loan and trust company, they lay the facts before the officers of the company. They are told that when they have constructed a certain amount of road the trust company will undertake to place their loan on the market. First, the mortgage securing the loan must be recorded in every county of each State through which the road is to run. Satisfactory evidences that the mortgage is so recorded must be in the possession of the trust company. Arrangements can then be made to the effect that, as certain sections of the road are constructed, a certain number of bonds will be issued. The amount to be issued will depend on the cost per mile of constructing the road. Purchasers of the bonds rely on the loan and trust company to see that there is never an over-issue of bonds.

Suppose the understanding between the purchasers of the bonds and the railroad officials provides that for the completion of each ten

miles of road there are to be issued bonds to the amount of fifty thousand dollars. It becomes the duty of the trust company to know that this amount is not exceeded. Any excess in issue would depreciate the value of the security. It is seen in this how the trust company serves the interests of both borrowers and lenders. The trust company not only attends to the business of the railroad company in securing funds, but guarantees to purchasers of its securities that there is no wrongful or over-issue. The part taken by the trust company is one, then, not only to transact the business for the corporation, but to supplement this

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For explanation of Forms, see closing paragraph of this chapter.

Left hand page.

..... *Loan and Trust Company.*

Date of New Certificate Countersigned and Issued.		*No. of Clf.*	*No. of Shares.*	*In Name of*	*Remarks.*

service by aiding in securing the faith and confidence of investors that the securities they take are in every case what they are represented to be.

Another important service is rendered by loan and trust companies to corporations. That is, issuing certificates of stock, and, in case of sale from one person to another, making transfers of same. Many corporations leave the business connected with stock operations almost entirely in the hands of some loan and trust company. The purchase and sale of stocks of corporations, especially those whose stocks are on the market, is made mostly in some of the important financial centers of the country. Here, too, is where the loan and trust companies are

located. It is a special advantage to holders of stocks to be able to have the necessary record made on the books of the company, showing that they are the holders, without having to forward the certificates to some remote place for that purpose. By an arrangement between the loan and trust company and the corporation, the former becomes the custodian of the transfer books. When an election of officers of the corporation takes place the transfer and stock books must be in the hands of the inspectors of the election. To meet this requirement the books are forwarded or handed over to the officers of the corporation by the loan and trust company.

When the holder of shares of a corporation sells his stock, and the

Right hand page.

REGISTER OF CERTIFICATES OF STOCK.

Countersigned by the

Date of Surrendered Certificate Canceled.		*No. of Ctf.*	*No. of Shares.*	*In Name of*	*Remarks.*

purchaser wishes the transfer recorded on the books of the company he must present to the transfer clerk at the office of the loan and trust company the stock of the seller. This stock becomes the voucher of the transfer clerk, showing his authority for making the transfer.

On pages 418 and 419 the formular arrangement of a register for recording transfers of stock certificates is given. The form on 418 represents the left-hand, and on page 419 the right-hand page of such a register. The headings over the several columns serve to explain fully the nature of the entries to be made in the book. The blank line at the top of the right-hand page is left for writing the title of the corporation from which the certificates are issued. The register is kept by the trust clerk. A separate register is kept for each corporation.

RECORD OF MORTGAGE BONDS OF THE BEE LINE R. R. COMPANY.

1884.		*Bonds Received.*			
Oct.	10	Rec'd from the Bee Line R. R. Company per Jacob Trusty, President, 150 First Mortgage Bonds, Nos. 1 to 150 inclusive. To be issued according to the terms of agreement, in installments of ten each, upon completion of ten-mile sections of said railroad			
		Par value, $1,000.	150	150,000	

Loan and trust companies' records of mortgage bonds of corporations are made in a book with the ordinary journal-rulings, a column being added for giving the number of bonds received and issued. The form on this page represents the left-hand, and the form on page 421 the right-hand page of such a register. These books are merely books of record and do not form any part of the general set of books kept by loan and trust companies.

Much of the bookkeeping of loan and trust companies is similar in character to that of banks and bankers generally. These corporations often do a large banking business, and have dealers who keep running accounts. They more generally, however, have the accounts of a class who do not so frequently disturb their deposits. Depositors with such companies as a rule are paid interest on their credit balances. This requires a slight alteration in some of the usual banking books to make them available. The dealers' or depositors' ledgers, for instance, are ruled with special columns for crediting interest on deposits.

The other records are kept through the use of an ordinary set of double-entry books. Of the various trusts managed by such companies there are required to be entered in the books of account only such items as affect the revenues and conducting expenses. The "Trust Account" is a record of the revenues arising from this department of the companies services, etc.

HELD IN TRUST AND DELIVERED BY THE..... .....

LOAN AND TRUST CO.

1884.		*Bonds Delivered.*			
Oct.	25	Delivered			
		To J. C. Smith 3 Bonds at			
		market value of $900.....	3	2,700	
		To A. Goodfellow 2 Bonds at			
		market value of $900.	2	1,800	
		To John Topheavy 5 Bonds at			
		market value of $900.....	5	4,600	

CHAPTER III.

THE POWERS OF TRUST COMPANIES.

As we have seen, trust companies possess a great variety of powers. Very generally they transact a banking business, but there is no uniformity in the additional functions exercised by them. In many cases they transact only a banking business, and in doing this the two chief differences between such a company and an ordinary bank of discount and deposit is the payment of interest on deposits and the granting of loans only to persons who can furnish satisfactory collateral securities.

Again, as national banks are rigidly restricted in their operations by the national bank act, trust companies are often organized in places where national banks exist to do many things that are outside their powers. For example, a national bank cannot execute a trust; its powers are limited by the organic law to receiving deposits, discounting notes and a few minor functions. In one sense, to every bank or agent is committed a trust which it daily exercises; but the older and larger trust companies, outside the receiving and lending money, exercise a much wider field than many of the newer companies, and large profits are derived from these operations.

The powers of trust companies are defined either by special acts of incorporation or by general laws. The older trust companies were created and exist by virtue of special charters. Many of them possess very extensive powers. They not only have the right to transact a banking business, but also to execute a great variety of trusts, to act as executor and administrator of estates, as guardians, as trustees to hold bonds and other securities, reorganize companies, buy, sell and lease property, to engage in building enterprises, and to do many other things.

One of the earliest questions that arose concerning trust companies was their capacity to act as an administrator, or in any other manner requiring an oath to be taken, as corporations are not capable by the common law of taking oaths "for the due execution of the office." This objection was raised by the famous Blackstone, but a later authority declared that it was settled that "corporations can be executors, and that on their being named they may appoint persons styled syndics, to receive administration with the will annexed, who are sworn like

all other administrators."* "There is then," remarks Mr. Justice Wales, "no inherent disability or disqualification belonging to a corporation as such which excludes it from acting as an administrator, and it may accept the office if not prohibited by its charter, or forbidden by statute, whenever from the objects of its incorporation and the nature of its business it may become necessary and proper, and it is able to comply with the conditions prescribed by law as to giving boud, etc."†

But this opinion is not held by all the courts. In several States they have declared that a corporation cannot act as an executor, administrator, guardian, trustee, etc., without special legislative authority. In Maryland the recorded utterance of the courts is that "a corporation cannot become an executor or administrator; nor has the English practice of allowing a corporation, when named executor, to designate a person styled a syndic to receive administration with the will annexed ever prevailed in this State."‡ And this seems to be regarded as the common law of New Jersey.§

But the right of a State to endow corporations with such authority is unquestioned. When, however, they can be formed under the general laws of a State, their creation by special charter is often prohibited by the constitution; on the other hand, when the general laws do not provide for their creation, they may be specially authorized by the legislature.‖ This question was thoroughly considered by the Supreme Court of Minnesota in a case in which the authority of a corporation to act as a guardian of the estate of an insane person was contested. In delivering the opinion of the court Justice Mitchell remarked: "To the appointment of corporations, organized for that special purpose, under well-guarded statutes, to the position of trustee of a trust, executor of a will, administrator or guardian of an estate, or other place of trust, involving the custody and management of property only, there can be no possible objection on either constitutional grounds or considerations of policy. The common law grounds upon which it was held that corporations could not act in any of these fiduciary capacities were purely artificial. The reason given by Blackstone why a corporation aggregate could not act as an executor or administrator is that it could not take the necessary oath; but even at common law, in England, this technical difficulty was evaded by the corporation naming an agent, called a syndic, to whom letters were issued. Moreover, it is, of course, entirely competent for the legislature to dispense altogether with an oath in such cases. Another reason often assigned why a corporation

*Toller on Executors, 30.

†Deringer's Ad. v. Deringer's Ad., 5 Houston, 430.

‡Reed v. Baltimore Trust and Guarantee Co., 72 Md. 531; Georgetown College v. Browne, 34 Md. 175; Ellicott Machine Co. v. Speed, 72 Md. 22.

§30 N. J. Eq. 106.

‖Reed v. Baltimore Trust and Guarantee Co., 72 Md. 531.

could not act as a trustee was that as a court of equity often enforced a trust by laying hold of the conscience of the trustee, therefore, inasmuch as a corporation has no conscience, it is qualified to act as trustee. The reason most commonly given why a corporation could not act as trustee, executor, guardian, or in other such fiduciary capacity, was that such an appointment involved a personal trust, and therefore a corporation lacked one of the essential requisites of a good trustee—personal confidence.* But at least as to trusts, technically so called, this doctrine has long since been exploded, even at common law, as too artificial.† And there are now numerous instances in which corporations have been expressly empowered by statute to administer estates, and neither the validity nor policy of such legislation has ever before, to our knowledge, been questioned.‡ In fact, in many of the States, particularly the older ones, this is fast becoming the favorite method of administering estates and executing trusts. The facts that such corporations have perpetuity of existence; that they are less liable than natural persons to sudden fluctuations of fortune; that, being organized for that special purpose, they can administer estates more efficiently and economically, and that in case of large estates it is often difficult to find a natural person who is both able and willing to accept the trust, and give the necessary bonds—have suggested the necessity and created the demand for such organizations.

"The statute is criticised because it does not require the corporation to take an oath or give a bond, as in the case of natural persons. But this is purely a question for the legislature. If they deem the securities deposited with the State Auditor, and the other safeguards placed by the statute around the organization and management of such corporations to insure the faithful execution of all trusts imposed upon them, as an equivalent for the bond and oath required of natural persons, they have the undoubted power to so provide.§

A question of great practical importance relates to the authority of trust companies to execute their peculiar statutory powers outside their own State in another where no such corporation exists, and where the common law right of a corporation thus to act is not clearly defined. This question was well considered by the Court of Errors and Appeals of Delaware twenty years ago, when the Fidelity Insurance, Trust and Safe Deposit Company of Pennsylvania sought to act as administrator of an estate in Delaware. Its authority to act in this capacity in Pennsylvania was not questioned, but could it exercise the same power in Delaware, since the law did not recognize the authority of a corporation of its own creation to act in that manner? Justice

*Perry on Trusts, 42.
†Vidal v. Girard, 2 How. 127, 187.
‡1 Morrawetz on Private Corporations, §357.
§Minnesota Loan and Trust Co. v. Beebe, 40 Minn 7, 9.

Wales remarked: "When a statute or the unwritten or common law of the State forbids the recognition of the foreign law, the latter is of no force whatever. When both are silent, then the question arises, which of the conflicting laws is to have effect? Generally, force and effect will be given by any State to foreign laws in cases where from the transactions of the parties they are applicable unless they affect injuriously her own citizens, violate her express enactments, or are contrary to good morals. And courts of justice in one State will, out of comity, enforce the laws of another state when by such enforcement they will not violate their own laws or inflict an injury on some one of their own citizens." The justice then cited with approval an opinion expressed by Chief Justice Waite, of the United States Supreme Court: "Upon principles of comity, the corporations of one state are permitted to do business in another unless it conflicts with the law or unjustly interferes with the rights of the citizens of the state into which they come. Under such circumstances no citizen of a state can enjoin a foreign corporation from pursuing its business." As the Fidelity Company had power to give the bond required by law for administering on the estate in Delaware, and as there was no positive law, or definite and known state policy to prohibit or forbid its exercise of the duties of an administrator, there was, so the court declared, "no reason why it should not be allowed to maintain this action."

In New Jersey, however, the court did not admit the right of the same company to act as an executor and foreclose a mortgage belonging to the testator, on the filing of a duly authenticated copy of his will in the Surrogate's office of the county where the land was located.* The opinion was very brief and did not state the reasons fully, but evidently the decision was based on the ancient doctrine that at common law, a corporation created within the state could not exercise such powers, and a foreign corporation could not possess powers that were still greater. The decision was simply that of the Chancellor and might not have been sustained by the higher court, but the trust company did not carry the contention any further.

Trust companies have been created with authority to qualify and act as the statutory guardian of infants on the execution of their own bond with the pledge of its capital stock as security for the faithful discharge of its duties. The legality of such power has been questioned, but in one of the cases it was remarked that as it was constitutional for the legislature to confer on a corporation the power to act as a statutory guardian, it followed that the legislature had the power to prescribe the terms of thus acting.†

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*Porter v. Trall, 30 N. J. Eq. 106.

†Johnson v. Johnson, 88 Ky. 275; Coleman's Admr. v. Parrott, 13 S. W. Rep. 525; Phalan v. Louisville Safety Vault and Trust Co., 88 Ky. 24; Bank of Commerce v. Payne, Viley & Co., 86 Ky. 446.

Furthermore, when such authority is granted to a trust company, a bond will not be required in another state where it may be appointed guardian although a bond and security is required of any person acting there in that capacity. This important point was determined by the Surrogate's Court of New York in the case of a Pennsylvania trust company which, having been appointed guardian in its own state, was also appointed in New York on the presentation of a transcript of the record, without giving any bond. The Surrogate remarked: "The object of a bond with sureties, under our statute, was of course to provide security to the ward. As our state has adopted the same practice of authorizing corporations to receive such trusts without security, it seems to me that by considering the act of the legislature of the state of Pennsylvania, which is in harmony with the practice in our own state, and provides that the capital of such corporation with its property and effects, shall be deemed pledged to the right administration of such a trust, as equivalent in spirit and fact to a bond with sureties, this court does no violence to the purpose of the act in question, but thereby adopts a construction which best accords with the spirit of interstate comity."‡

A trustee for minor children cannot by his will bind a trust company having possession of the funds to pay the income to the guardian of the children after his death. Smith v. Central Trust Co., 42 N. Y. Supp. 740.

A trust company should exercise the utmost care and fidelity with the funds committed to its keeping. If those belonging to different estates or parties are used in its own business, it is chargeable with interest on all at the legal rate. And if they have been mingled, a proportionate part of each fund will be regarded as used after deducting the balance on hand.§

The trust companies usually have fixed charges for most, if not all their services. This is one reason why they are more and more employed to act as trustees. Another is that they usually have experienced men to transact every part of the business. Sometimes, however, there are disputes springing from their charges, but only on rare occasions. One of these related to a charge paid an agent for collecting rents. This was held to be proper charge by the company and also the premiums paid for keeping premises insured that were in its charge.*

Various questions have arisen on the failure of trust companies concerning the rights of parties. When the Jarvis-Conklin Mortgage Company failed, a few years ago, there was a noteworthy case brought by a foreign mortgage company (which had sent a large amount of money to the other to pay for mortgages) to establish a fiduciary relation

‡In Matter of Cordova, 4 Red. 66.
§St. Paul Trust Co. v. Kittson, 62 Minn. 408
*Garvey v. Owens, 35 N. Y. State Rep. 133.

between the two and thus secure the return of its money instead of sharing as a general creditor. But the court held that, under the contract existing between the two companies, the same relation existed between them with respect to the funds in the possession of the American company belonging to the other, as in the case of an ordinary bank depositor.†

When the Northwestern Guaranty Loan Company failed there were three classes of claims: (1) claims based on a guaranty of negotiable notes; (2) those based on a guaranty of mortgage notes securing the debenture bonds; (3) and those based on the debenture bonds. The American Loan and Trust Company was the trustee of a fund held as collateral security for the performance by the Northwestern company of its guaranties. At the time of creating this trust the Northwestern company was engaged only in guarantying and selling corporate or personal obligations. Afterward it sold debenture bonds for the security of which it created other trust funds under other trust indentures. The trust fund held by the American Trust Company was declared to belong to the claimants of the first class.‡

†78 Fed. Rep. 56.
‡44 N. E. Rep. 340.

PART V.

BANK LITERATURE.

CHAPTER I.

BANK LITERATURE.

We have often been asked about books relating to the history and methods of American banking, and it is proposed in this and the following chapter to give some account of the literature on the subject.

The works that may be first considered are those of a more formal or didactic nature setting forth the principles relating to banking. Of these, there are very few wholly devoted to an exposition of banking principles. Generally, the subject is combined with other subjects, as in Horace White's "Money and Banking." These two subjects are closely related; to understand the principles of banking those of money are an indispensable foundation. Condy Raguet's Treatise on Currency and Banking, a much older work (published in 1839) is of somewhat similar scope, and is a valuable contribution to bank literature. Raguet and William M. Gouge were contemporaries, both lived in Philadelphia, and were familiar with sound economic principles and strenuous in the advocacy of them.

In many of the American treatises on political economy are chapters devoted to the principles of banking. In the following list most of them are included:

Andrews, E. B.—Institutes of Economics; Part 3, Chapter 2.
Blair, D.—Outline of Political Economy.
Bowen, F.—Principles of Political Economy; Chapter 20.
———American Political Economy; Chapters 14, 16.
Bowker, R. R.—Economics for the People; Chapter 15.
Brough, W.—The Natural law of Money; Chapters 3-5.
Carey, H. C.—Principles of Social Science; Volume 2, Chapter 36.
Champlin, J. T.—Lessons in Political Economy; Chapter 15.
Chapin, A. L.—First Lessons in Political Economy; Chapter 4.
Colwell, S.—Ways and Means of Payment; Chapter 17.
Conant, C. A.—History of Modern Banks of Issue; Chapters 13-15.
Colton, C.—Public Economy for the United States.
Cooper, T.—Manual of Political Economy; Page 82.

Cooper, T.—Elements of Political Economy; Chapter 14.

Davenport, H. J.—Outlines of Elementary Economics; Chapter 11.

Denslow, Van B.—Principles of the Economic Philosophy of Society. Government and Industry.

Dunbar, C. F.—Chapters on the Theory and History of Banking.

Ely, R. T.—Introduction to Political Economy; Part 3, Chapter 3.

Gregory, J. M.—New Political Economy.

Hadley, A. T.—Economics; Chapters 7, 8.

Laughlin, J. L.—Elements of Political Economy; Chapters 29, 30.

Jennison—Outline of Political Economy; Page 41.

Leverson, R. M.—Common-sense, or First Steps in Political Economy.

Macvane, S. M.—Working Principles of Political Economy; Chapter 15.

Mason, A. B., and Lalor, J. J.—Primer of Political Economy.

McAdam, G.—An Alphabet in Finance; Chapters 10, 11, 13, 14, 24.

Newcomb, S.—Principles of Political Economy.

Newman, S. P.—Elements of Political Economy; Chapter 6.

Opdyke, G.—A Treatise on Political Economy; Chapter 5, section 2.

Perry, A. L.—Principles of Political Economy.

———Introduction to Political Economy.

Phillips, W.—Manual of Political Economy; Chapter 11.

Pickering, J.—Workingman's Political Economy.

Poor, H. V.—Money; its Laws and History.

Putnam, O.—Tracts on Political Economy; Section 6.

Raymond, D.—Thoughts on Political Economy; Part 2, Chapter 7.

Richmond, W.—Christian Economics.

Simpson, S.—The Workingman's Manual; A New Theory of Political Economy.

Steele, S. M.—Outline Study of Political Economy.

Sturtevant, J. M.—Economics.

Thompson, R. E.—Social Science and Natural Economy; Chapter 8.

Tucker, G.—Political Economy for the People; Chapter 13.

Vethake, H.—Principles of Political Economy; Book 3.

Walker, A—Science of Wealth; Book 3, Part 2.

Walker, F. A.—Political Economy; Part 6, Chapter 2.

———Money; Part 3.

———Money and its Relation to Trade and Industry; Chapter 10.

Ware, N. A.—Notes on Political Economy; Chapter 27.

Wayland, F.—Elements of Political Economy; Chapter 22.

Weston, G. M.—Money.

It is interesting to note the fuller development of the principles of banking in the later works, in common with the fuller development of other important economic principles. The next class of works to be noticed are those that treat of the history of banking. At the outset

it may be remarked that a satisfactory history of American banking remains to be written. Furthermore, it will be quite impossible to do this until either the National or State governments collect the statistics and other materials that are now missing, growing out of our banking experience. In 1893 the Secretary of the Treasury, by order of the Senate, attempted to collect this information. Some of it was furnished, but in the secretary's report he described the difficulties in collecting it and recommended that a special appropriation be made for that purpose. In the early part of the century "efforts," says Mr. Gouge, "extending over several years to collect the accounts of the banks of the country had proved so unsatisfactory in results, and so little success had crowned the labors of Mr. Crawford, Mr. Gallatin and Mr. Niles in the same direction that it was not thought worth while to arrange for publication the materials that had been prepared." There is good authority for the statement that a later Secretary of the Treasury, by whose direction a large and valuable body of information was collected and arranged, declined to publish it, not because it was worth little, but rather because it was worth too much, and told too much against the principles and purposes of his party. From the materials then collected, could a different story have been extracted from the party point of view, it would have duly seen the light.

In 1895 was published the History of American Banking, written by William G. Sumner. The work hardly sustains the well-known learning and industry of the author. The fact that all the important banking history since 1860, the rise and development of the national banking system, are swept over in sixteen pages, is enough to condemn any work that professes to be a history of American banking. Perhaps the eminent author imagined that most persons who would be drawn to his pages were familiar with the subject during the last thirty years, but this is not a satisfactory reason for the omission of so much from a work with such a title.

Another history is by Mr. John Jay Knox, who served the government for an unusually long period as Comptroller of the Currency. It was in a very incomplete state at the time of his death, yet notwithstanding the numerous gaps, it has appeared as a serial with considerable editions. It is announced that it will be published in another form with much additional matter; and it is hoped that those who are in quest of much that is not now in an accessible form will find it in the pages of this work.

An older history, and long since out of print, is by William M. Gouge. It is entitled, "A Short History of Paper Money and Banking in the United States," including an account of provincial and continental paper money, to which is prefixed an inquiry into the principles of the system, with considerations of its effects on morals and happiness. The whole intended as a plain exposition of the way in which paper money and money corporations affect the interests of different

portions of the community. The work is divided into two parts. The first is "an inquiry into the principles of the American banking system with consideration of its effects on morals and happiness;" and the other is a "short history of paper money and banking in the United States." Brief as this history is, it has been by far the most valuable source of information for the period it covers. It has been a veritable mine for many writers.

We have already mentioned Raguet's "Currency and Banking." This is partly historical. He was also editor of the Free Trade Advocate and Journal of Political Economy; devoted to the advancement of political science. This was continued for two years. It appeared during a very important period in our history, 1829-30.

There are briefer works of a historical character, papers like those by Alpheus Felch on "Early Banks and Banking in Michigan;" H. F. Baker on "Banks and Banking in the United States;" Clarence B. Hadden on the "History of the State Banks and Early Banking System of Wisconsin; A. C. Bryan's History of State Banking in Maryland." Chapters also relating to banking will be found in the writer's "Financial History of the United States." When preparing that work he had in view another on the history of American banking, but which has not been written by reason of inaccessibility of the data above mentioned needful for a satisfactory presentation of the subject.

The title of another work, though of inferior merit, may be mentioned. This is by T. H. Goddard, and is entitled "A General History of the most prominent banks in Europe, particularly the banks of England and France; the rise and progress of the bank of North America; a full history of the late and present Bank of the United States; to which is added a statistical and comparative view of the moneyed institutions of New York, and twenty-four other principal cities of the United States. Also A. Hamilton's and McDuffie's reports to Congress on Currency." It was published in New York in 1831.

During the colonial days there were a few feeble experiments in banking. These are described in the first Essays at Banking, and the first paper money in New England, by J. Hammond Trumbull. (Worcester, 1884), and in A. McF. Davis's excellent papers in July and October numbers of the Quarterly Journal of Economics for 1896. They are entitled, "Currency discussion in Massachusetts in the Eighteenth Century." The bibliography appended to "Remarks on the Early Paper Currency of Massachusetts," by Nathaniel Paine, together with the additions in the writings of Trumbull and Davis is, it is believed, quite complete for that period, and nothing further need be said except to mention "An Historical Account of Massachusetts Currency," by Joseph B. Felt, and Hutchinson's History of Massachusetts.

Besides the works that aim to be more general, are others of a local character, the history of various institutions. These are multiplying. Among the more noteworthy are Lewis's "History of the Bank of

North America," (1882); Domett's "History of the Bank of New York from 1784-1884;" Whitney's Suffolk Bank of Boston (1878); Goddard's Bank of Rhode Island; Woodward's Bank of Hartford. These works are quite narrow in their scope, and do not even incidentally add much knowledge to the general history of banking. Each of the institutions described is a leading one in its own city, and if the banking history of the several places had also been included, still preserving the prominence of the bank specially described, these works would have possessed a greater value and interested more than the narrow circle for whom they were prepared.

Lastly, a brief reference may be made to the history of savings institutions. A history from their inception down to 1877 has been written by E. W. Keyes, formerly assistant superintendent of banking for the State of New York. The work is a rather ponderous affair, in two volumes, and is a somewhat hasty, superficial piece of work. The third class of works to be mentioned are official documents, reports made by officers of the National and State governments, reports by committees of the Legislature, and those of banking associations. For a better description they may be divided into several classes.

The first of these are the annual or regular State reports, made by commissioners, superintendents or other officials who exercise supervision over the banks in their respective States. Some of the States, notably the New England ones and New York, have exercised such supervision for many years, while other States have thus enlarged their functions within a recent period. These reports vary greatly in value. Some of them are replete with information; others contain very little. A considerable quantity of statistical matter is usually found in them, though the information most wanted is too often missing.

The next class of public reports to be described are those made by legislative committees. Those prepared in the ordinary transaction of legislative business are not of much account, but there are special reports growing out of bank failures and radical changes in bank systems that contain much valuable information. The national reports and other public documents may be divided into four classes. The first class comprises those relating to the first United States bank; the second class to the second United States bank; the third class the annual reports relating to banks from 1833 to 1863, and lastly the reports of the Comptroller of the Currency and other documents growing out of the system. In the first class one of the most noteworthy documents is Alexander Hamilton s report on a plan for establishing a national bank. This with many other important reports are collected in the series of American State Papers relating to Finance (5 volumes). The reader who is desirous of exploring into the documentary history of the second United States bank can find a ready reference to everything in the indexes of the various national publications. The third class of

reports require brief notice. By a resolution of the House, passed in 1832, the Secretary of the Treasury was directed to lay before that body every year statements or returns "showing the capital, circulation, discounts, specie, deposits and condition of the different State banks and banking companies." This information was to be derived from State reports and other sources. These reports appeared regularly until 1863, the time of the beginning the issue of the reports of the Comptroller of the Currency. Twenty years later he was required to embody a considerable portion of this information in his annual report.

With respect to the fourth class of public reports relating to the national banking system nothing need be said. These contain a vast body of information, showing in great detail the working of every part of the system.

Lastly, there remains for consideration the reports of separate banks and bank associations. In Canada it is the regular practice of all the banks, or all the principal ones, to present printed reports of their business to their stockholders. This is an excellent practice, and worthy of imitation. An occasional report is made by an American bank, but too often it is delayed and appears as the report of a receiver who tells the sad story of the downfall of the institution.

Bank associations of late years have been rapidly multiplying, and while most of the papers read at these meetings are of a practical character, as they should be, some are historical, especially the papers or addresses that appear in the proceedings of the associations of the younger or middle-aged States.

CHAPTER II.

BIBLIOGRAPHY OF WORKS ON AMERICAN BANKING.

In this chapter the titles will be given to many of the books and pamphlets relating to American banking. The list is not complete, for it is hardly possible to include all the titles on such a large subject. One of the greatest difficulties is to determine, where a book or pamphlet relates partly to American banking, whether to include or exclude it. There are many that deal with money, finance and banking; sometimes one of these topics is treated much more prominently than the other two; sometimes it receives lesser consideration. Again, a book or pamphlet may devote only a small space to the subject, yet the little said may contain some fact, suggestion or remedy of much importance. The pamphlet literature is quite extensive, and while much of it is extensively barren and unscholarly, many a rich nugget of thought is embedded in some unattractive, poorly printed pamphlet that is well worth finding.

The books and pamphlets of known authorship, or by persons signing pseudonyms, are arranged alphabetically, by the names of the writers; the anonymous ones are arranged under several appropriate heads. It may be added that the publications relating to the United States banks and to the present national banking system do not include the official reports and other documents than can be easily found in the indexes of national publications prepared by the government. Nor is any reference made to periodical literature, relating to the subject, as this can be easily traced in the excellent indexes covering nearly the entire field.

ABBOTT, W. G.—Reasons why savings banks should be taxed by the State of Connecticut.

———Objections to the taxation of savings banks; 1880.

ADAMS, J. Q.—Speech (suppressed by the previous question) on the removal of the public deposits and the reasons; Washington, 1834.

AEGLES.—The letters of, addressed to John C. Spooner, chairman of the bank committee, etc.; Baltimore, 1819.

AMICUS PATRIAE—A word of comfort to a melancholy country, or the bank of credit erected in the Massachusetts Bay, fairly defended by a discovery of the great benefit accruing by it to the whole province; Boston, 1721.

APPLETON, N.—Examination of the banking system of Massachusetts with reference to the removal of the bank charters; Boston, 1831.

——Remarks on currency and banking; Boston, 1841.

——Remarks on currency and banking, having reference to the present derangement of the circulating medium of the United States; Boston, 1857.

ARISTIDES—A letter to the Secretary of the Treasury on the commerce and currency of the United States; New York, 1819.

——Essays on the spirit of Jacksonianism as exemplified in its deadly hostility to the bank of the United States; Philadelphia, 1835

ATKINSON, E.—The banking principle; or banking in its relation to currency; April, 1895.

——What is a bank? What service does it perform? New York, 1880.

ATTFIELD, J. B.—The branch bank system.

ATTICUS—Letters of, in the currency and credit system, and national fiscal agent of the United States; 1838.

ATWATER—Considerations on the approaching dissolution of the United States bank; New Haven, 1810.

BACON, H.—Basis of security for national bank notes; Philadelphia.

BAIRD, H. C.—The bank check and not the circulating note the great monetary instrument of the age; Philadelphia, 1873.

——Money and bank credit; Philadelphia, 1891.

BAKER, H. F.—Banks and banking in the United States; two parts; Cincinnati, 1854.

BAKER, E. R.—The subject of money considered; Winfield, Kan., 1888.

BALDWIN, L.—Thoughts on the study of political economy as connected with the population, industry and paper currency of the United States; Cambridge, 1809.

BANK CRASH—The present crisis; Rochester, N. Y., 1857.

BANKS, H.—Sketches recommending an independent system of banking; Richmond, Va., 1811.

BARNARD, D. D.—Speech in the Assembly of New York on banking, currency and credit upon the passing of the general banking law; March 29, 1838.

——Speech in the Assembly of New York on the bill to replace the law prohibiting the circulation of small bank notes; January 9, 1838.

BARTOW, R.—A true exposition of the transaction which led to the failure of the late Franklin bank; New York, 1831.

BENDER, J. S.—Money: Its definition and tests; Plymouth, Md., 1879.

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APPENDIX.

BANKING AS A PROFESSION FOR YOUNG MEN.*

It is generally true in mercantile life and in the learned professions, and always true in banking, that in order to insure success, a young man must have some end in view towards which all his exertions shall tend. Every young man should have some well-defined plan of life marked out before him, and all his energies should be directed to the realization of it.

Many have some general object in view, such as getting rich, or getting beyond hard work at some time of their life; while but few have a specific, noble mark, towards which they are aiming. This is the reason why there are so many second-rate young men to be found in every profession, and why so many men of riper years are neither one thing nor another—strung up and dangling between something and nothing—breathing in the unsatisfying east wind of a glorious mediocrity, and hoping that an undefined something may turn up one of these days, which shall relieve them and place them in an undefined blissful somewhere. According as a young man aims, so will his arrow fly. According to the energy with which he strives, and the talents which he brings to bear, so will he rise. But what are the objects to be aimed at by a young banker? For what end should he strive, and what is there ahead to reward his toil? What are the advantages of the banker's profession? The advantages enjoyed by persons in this profession, for the attainment of everything desirable in life, are very great, and the inducements held out by the profession to ambitious, enterprising young men, are enough to satisfy any reasonable person. A high eminence and a name are as sure of attainment as in any other business.

It should be the object of every young man who enters the profession, to become thoroughly acquainted with every part of it. He should strive to become familiar with it all, from the great general principles down to the minutest detail. While in a subordinate situ-

*The excellent ideas contained in this chapter first appeared in the Banker's Magazine many years ago. Time has not impaired their value. They were written by George P. Bissell, a banker in Hartford, Conn,

ation, he should not be satisfied with merely doing the work which is laid upon him, but while in this situation, he should be fitting himself for the next place above him. His aim should be to rise as rapidly as is consistent with a healthy growth, till he has placed himself at the head of an institution; and then his ambition should be, to be first in his profession, to reach an eminence and carry his bank with him. To aim merely at a cashiership, or to be president, is a low aim; but to be known as the best cashier or president in the country, is an aim well worthy of any man, and is the only one which should satisfy a young man entering this profession. A young man can rise as rapidly and as surely in this, as in any other profession; he can also rise as slowly and as surely, and he can remain as immutably stationary as in any other calling under heaven. There are plenty of stopping places adapted to all phases of mediocrity, and these stopping places are very tenacious of their prey. A man once fixed in any of them, is there for life.

No one should enter the business unless he is determined to reach the top of the ladder. If a man is not somewhat ambitious, and unless he can see through a pretty long transaction, he generally becomes a fixture. Any one can tell, in the course of his first year, whether he is adapted to the business, and whether he will succeed. If a young man begin to feel the trap-door of a second-rate station, or a subordinate clerkship, pressing him down as he is trying to ascend the ladder, let him make a desperate effort to raise it; but if he cannot succeed, let him at once betake himself to some other ladder, under some other opening.

Let no one enter this profession with the expectation of becoming suddenly, or even speedily, rich, for this expectation will be disappointed; neither let any entering the profession be afraid of ever becoming poor. Labor is generally liberally rewarded, and talent is generally appreciated. There are some, it is true, in banks, who receive but small pay, and who delve for years in subordinate situations, but such are generally men not largely endowed with talent, whose aim is nowhere, and who consequently are paid about as much as they are worth. A man of talents and energy is always sure of good pay; sufficient for all the expenses attendant upon a genteel style of living, besides a handsome margin for moderate investment for the satisfaction of that great maelstrom account generally known as "sundries." He is always sure of a competence.

> A competence is all we can enjoy,
> O be content where Heaven can give no more.

It is impossible to name exactly the amount of salary which a young man may expect to receive. It depends a little upon the locality and size of the bank, and a great deal upon what the young man himself is. A moderate young man in a moderately-sized bank, generally has a

salary very nicely fitted to him, while an energetic, talented young man, in a good institution, can be the recipient of almost any sum that he has the face to ask for. Some idea upon which to base expectations may be formed from a knowledge of the fact, that tellers' salaries range from $500 to $1,800 per annum; cashiers' from $800 to $5,000, and presidents' about the same.* In some banks the office of president is a mere sinecure; in such banks the president receives no salary, but takes it out in honor. Let a young man fix in his mind the salary that he thinks he ought to be worth, and then work for it, and he will generally receive it. A banker, from the nature of his position in the financial world, has often opportunities thrown in his way for making money besides his salary, but this should not be counted upon by a young man, for it is very uncertain. If a young banker is working for a name, a reputation, and—which follows as a matter of course—for a high salary, his best course is to keep himself free from anything like speculating, shaving or dabbling in stocks. He should engage in no other business but his bank, and he should keep himself as far as possible from any course in which there is the least possibility of becoming in any way involved or embarrassed.

There is less anxiety of mind in this profession than in most others. It is true that the banker has a great many cares, and his mind has about as much as it can well do, but there is none of that terrible anxiety of mind which waits upon the merchant who has his warehouses full of goods, prices falling, and money scarce. The merchant at times is elated by prosperity, and again he is weighed down by anxiety, and either extreme, or the transition from one to the other is very wearing; but the banker has at all times enough to think of. He is never troubled with the alternations of excitement and depression; his mind is constantly active, not overtasked, and consequently its action is always healthy. During business hours he works hard, but at night he can throw off all care, and devote himself, if he choose, to literary pursuits, and to self-improvement.

There are times in great commercial distress when confidence is destroyed, that banks are crowded and pressed very hard; but with ordinary management they can be carried safely through. No bank ever failed where there was good management and no speculation. All that is required is caution and prudence; but the most incessant exercise of caution and prudence will not amount to that anxiety which produces sleepless nights.

A banker can have a great deal of time to devote to mental culture, and to the acquisition of useful information. He generally has his evenings to himself free from care, and much can be done by the improvement of such hours. His business is of such a nature that

*Since this was written these salaries have increased until they are now (1884) about doubled.

this is not incompatible with being first in his profession. There are some, however, who work night and day, and make slaves of themselves, but such are generally men who care but little for mental improvement, and whose whole aim seems to be to remain in a bank, and yet realize a treadmill. Let them work. They have the satisfaction of knowing that they are not always the best bankers. The best in any profession are those who have room enough in their brains for more than one idea, and who take time for something beside dollars and cents. A banker can, if he will apply himself, so cultivate his mind that he will shine as brightly in social life, and appear as well, even in literary circles, as men of liberal education.

These are some of the advantages of the banker's profession, and these are some of the inducements which are held out to those who wish to enter it.

A young man in order to succeed should maintain a straightforward course, both in his own affairs, and in the affairs of the bank; he should be possessed of a clear head, a mind not easily carried away by tempting offers for speculation, a disposition to receive very fair stories with considerable allowance; he should have urbanity combined with firmness and decision, and above all, he should have a deep-seated, stubborn passion for good security.

These are the traits which are absolutely necessary to insure success in banking. Without them no young man should enter a bank. Without them, a young man should rather take himself to some one of the other professions, where even a fool can sometimes make a happy hit. In banking there are no happy hits to be made; the life is one long, dead pull upon talent, energy and perseverance.

ADVICE TO DEPOSITORS.

If you are a stranger to the officers, and wish to open an account, get some respectable person who is known to them to introduce you either to the president or cashier. Do not ask him to vouch for anything beyond your integrity and fairness in dealing. Tell your own story about capital, business, property, and other matters which pertain to your commercial prospects—and exaggerate nothing. There is no humbug that will recoil upon yourself so surely as an attempt to palm off big tales on a bank officer. Your deposit-tickets, your checks, your bills receivable, your endorsements, and your ledger account, make together a history that dispels all shams, and leaves little to say. A man who begins with an exaggerated account of himself is measured by it afterwards, and appears relatively small.

Borrow no money of your neighbors to swell your first deposits. This is a common practice, with the idea that it will make a favorable impression on the officers. They see through it at once, and take it as a proof of weakness.

Never try to bargain for special indulgences, such as the certification of your checks before your deposit is made, or the discount of your paper by the officers without its submission to the Board of Directors. The character of your account will settle these matters much more satisfactorily to all parties.

Let your intercourse with the officers be candid and courteous, and be sparing in your personal solicitation for discounts. Choose the earlier hours of the day for your interviews, and especially avoid the last hour before 3 o'clock.

Write your signature with the same freedom that you do in your own office, and never vary the style of it.

Teach your clerks to use always the deposit-tickets furnished by the bank, to examine the date and endorsement of every check, and also to see that the writing of the amount corresponds with the figures. Instruct them to learn and to follow the rules of the bank with respect to getting checks certified before deposit.

Make your deposit as early in the day as possible. If you are accustomed to have many checks, or large packages of bank bills, it is

better to make two deposits—one at an early hour—than to hand in all at once just at 3 o'clock. Never change checks with other people merely to make larger figures. It causes needless labor to the bank clerks, makes you responsible for the debts of others, and is a real prejudice to your credit.

Never try to put in your deposit before those in advance of you, but take your place in the line, and wait your turn patiently. Never make deposits without your bank-book, if you can help it. Avoid all unnecessary conversation with the clerks, especially with the tellers.

Never get angry if the paying teller examines your account before certifying your check; nor if he keeps you waiting a few seconds before he can pay it.

Make it an invariable rule to give checks only out of your own check-book, and at your own office. When you want the endorsement of the person to whom you give it, if he wishes to draw the money, let him endorse the check in your presence, and write your own name below his signature, to assure the teller that it is right.

Never give out checks dated ahead. When you have need to cut checks out of the end of your check-book, mark in the margin what they are for—to supply duplicates, or otherwise. Keep your check-books out of the sight and reach of strangers. Never give a stranger a check unless you have some evidence that he is not seeking it for fraudulent purposes. Never draw checks against your account, on the ground that you have sent some abroad that will not return immediately. Always consider a check paid when you give it out.

Never attempt to pay a note with an uncertified check, at a bank where you keep no account. If you make your promissory notes payable at a bank, give the paying teller a list of them on Monday morning for the current week, or send him your bank notices on the day of their maturity.

When you want notes discounted, offer them on the regular days, and in good season for the clerk's convenience. Never call on bank officers to discount notes between the board meetings, if you can wait until the following discount day. Do not put off the offering of notes for discount until the last day of your need. It is better to keep from ten days to a fortnight ahead, and to let your balances remain in the bank until you require them. The loss of interest is very trifling at best. You lose more by anxiety and unfitness for business.

When you want your bank-book balanced, or entries made in it, apply to the bookkeeper early in the day. Never ask a service of him later than 1 o'clock if you can wait till the next morning. Do not allow your book to run too long without being balanced, and when balanced, examine your canceled checks without delay.

If the bank ledger shows a larger balance in your favor at any time, than your own check-book, acquaint the bookkeeper with it im-

mediately. As you value your credit with the bank, never take advantage of deposits wrongly entered to your account, but let your dealings be strictly honorable.

If you have any cause of complaint against the clerks, state it directly to the officers. The clerks act under their instructions, which they dare not disobey.

The bookkeeper is the proper person to apply to, to know if collection notes are passed to your credit.

The note clerk will inform you of the maturity of notes for a future time. In the case of discounted notes apply to the discount clerk. The discount clerk, or the note clerk, will commonly tell the exchange or charges for collecting foreign paper.

When you have notes to send abroad for collection, deposit them in ample time for deliberate record and transmission by the bank.

If the drawers of any notes lodged as collateral to loans or discounts should fail, do not wait for the bank officers to discover it, but substitute good notes for them without delay.

The observance of these rules, and such others as may be suggested by your own observation, will be a great economy of time to yourself as well as to the bank clerks, and promote your real credit with the institution.

SUGGESTIONS TO YOUNG CASHIERS ON THE DUTIES OF THEIR PROFESSION.*

Banking has become a part of the very framework of our system of business. Even Mr. Calhoun said, as long ago as 1816, when the whole banking capital in the United States was only eighty millions of dollars, that "the question whether banks are favorable to public liberty and prosperity was one purely speculative. The fact of the existence of banks, and their incorporation with the commercial concerns and industry of the nation, prove that inquiry to come too late. The only question was, on this hand, under what modifications were banks most useful," etc. Banks now exist, in some form or other, everywhere, and will continue, probably, as long as property shall be bought and sold on credit. In all coming time, therefore, we are to have a class of men to deal in money, in promissory notes, and foreign and domestic exchange. The avocation has ever been honorable, to the last degree responsible, and exposed to many and to peculiar temptations.

The world, seemingly more inexorable with our profession than with others, deals out its direct maledictions upon those of us who err, and will hardly forgive the managers of a broken bank, or the officer whose "cash is short," even when there is no other guilt than credulity, too easy good nature, or incapacity. To stand upon our defense against unjust accusations, and to do what we can to diminish the causes of corporate and of individual delinquency, are duties which we owe to ourselves and to those who are to succeed us. Dispersed, as we are, over a vast extent of country, we can best correct public sentiment, and afford counsel and admonition to one another, as well as render our knowledge of banking available as common stock, by means of the work established for, and devoted to, our benefit.

Banks, with us, both public and private, differ—as none need to be told—in many things from those of England and of Continental Europe. It is known, also, that our system is not perfect, and that essential im-

*This essay, by Lorenzo Sabine, of Framingham, Mass., was originally published in the Banker's Magazine in January, 1852. A few changes have been made to adapt it to the present work.

provements can be made in it. Hence, whatever the value of essays upon foreign banking, papers devoted to our own are far more useful to us, regarded as a class; and hence, too, the necessity for a free interchange of thought by bankers in different parts of the Union.

I pass now to topics immediately connected with the duties of a cashier. The limits of this essay do not admit of elaborate reasoning, but demand, indeed, that mere suggestions shall be made with the brevity of proverbs. I may be permitted, then, to address myself to the young officer, directly, and, as it were, personally.

You are to lead a life so confined, sedentary, and, in some respects, so mechanical, that, unless you observe great care, you will become, in the lapse of years, a sort of machine for computing discounts, counting money, writing letters, and keeping books.* You are to transact business, and to have a constant intercourse, with men of every shade of character, of every variety of disposition, and of every degree of intelligence. Your temper is to be tried by interruptions at the most unseasonable moments, to attend to the calls of the impatient, or to answer the inquiries of the ignorant or inquisitive. You are to be tempted to embark in speculations in stocks; to be solicited to allow overdrawings and other irregularities by the companions of your social hours, and it may be, by one or more of our own directors; and you are to have the same domestic cares and afflictions, the same personal aches and pains as other men; and yet you are expected to be ever at your post, to be ever courteous, to stand fast in your integrity, and to seem cheerful, and even happy. In a word, and as Girard said, at the decease of his old and faithful cashier, "the bank must go on," whatever your private griefs or individual disabilities. Your position is thus one of much difficulty, responsibility and peril; and you need a knowledge of the laws of your physical being, the counsel of wise friends, strict and daily self-examination, and deep religious principle, to enable you to sustain it in health and honor. But be of good cheer; be a true man, and you will overcome every obstacle in the way of a long and of a useful life.

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*Every person of observation will attest to the need of the caution in the text. Long and close application to one branch of business, and the habit of being at one place for a course of years, produce wonderful transformations in the character. The case of Mr. Rippon, the late chief cashier of the Bank of England, furnishes an illustration well worth citing. He was connected with that institution for more than half a century, and asked but for a single leave of absence from his post during the entire period, and in this instance, even, he applied at the suggestion of his physician, on the ground of ill health. Permission was granted, and our bank officer departed from London to be absent two weeks. But the country was without charms, idleness preyed upon his spirits, and the habit of years was so strong that, at the end of three days, he returned to the bank, solely to become happy again.

Your bank has secrets; and, that they be kept inviolable, adopt a rule to speak of its affairs only to persons connected with you in its management.

You should embrace every opportunity to acquire information as to the standing of your customers; and whatever is imparted to you on the subject, whether in confidence, or otherwise, should be communicated to your directors, and to them alone.

You should become acquainted with the laws relative to banking, and especially with those of your own State; and should be familiar with some work which treats of notes and bills, of the liabilities of sureties, drawers and endorsers. I recommend, as the easiest way to obtain, and to retain, knowledge in these particulars, that you make a manual, or brief digest, with marginal references to the authorities which you consult. The best books are "Daniel on Negotiable Instruments," and "Morse on the Law of Banks and Banking." To master these works, or even to obtain common knowledge of the immense learning which they contain, will require time—much time. But the leading principles applicable to promissors and other parties to commercial paper, are easily fixed in the memory, and no time should be lost in consulting the latter treatise, at least. I recommend to the young cashier to devote a part of his leisure to professional reading of a more general nature. The history of the system of credit is not only curious, but interesting and instructive. Strangely enough, as he will find, banking owes its origin to the Crusades, for the earliest institutions of which there is any account was a mere bank of deposit, established at Venice, late in the Twelfth Century, for the purpose of aiding those who fought to win the Holy Land from its unholy possessors. Such was the first element, and the degree of security and facility of commercial transactions of the period may be seen in the fact that, in England, contracts between individuals were discharged by payments in cattle, horses, dogs, and even hawks; and that rents, fines, and taxes due the crown were paid in the same kinds of property, in products of the soil, and in merchandise generally. In a word, the idea of paper money based on the precious metals, or on personal estate and credit, or on lands, had not been conceived, we may fairly conclude, anywhere. Next, if the notes of my own reading be accurate, and equally strange, we hear of some sort of paper credit, early in the Thirteenth Century, not in any trading country of Europe, but in far-off, and, as we commonly say, in barbarous China. So, again, toward the close of the last-mentioned century, we are told that the hated and hunted Jews and Lombards invented the bill of exchange, which afforded means for the silent and secret transfer of funds from country to country, to the infinite discomfiture of robber kings and of robber outlaws. Next, probably, in chronological order, was the promissory notes, which strange device, grave and learned judges, in solemn wig and ermine, dared at length to pronounce to worn and

weary litigants, might, if traffickers so willed, pass current from one person to another, and be lawfully collected by the final owner.*

The young cashier having, by his researches, convicted me of inaccuracy, or having established the truth of the foregoing outlines of bank history, may, as opportunity occurs, pursue the subject still further. The first charter of the Bank of England is accessible, and he may study it with profit, and to ascertain the immense progress which has been made in the principles of banking, whether as relates to rights of stockholders or to public convenience and safety. He will find valuable lessons in the legislation of his own country; in the issue of paper money prior to the revolution, which at times flooded the colonies, and which in spite of the clamors of our fathers, was suppressed by Parliament; the marvelous tales and traditions which have come down to us of the never-to-be-forgotten "continental money," without which the bonds of colonial vassalage would not have been broken when and as they were; in the earlier charters of the different State Governments, and in the two charters of Congress of the great national institution which has now ceased to exist.

This general inquiry concluded, he will have improved his own mind, and be ready to meet and to reason with those who, because the system has not been perfected in a century and a half (dating from the establishment of the Bank of England), demand its entire abolition, or at least such changes as would render it powerless for good, alike to individuals and to communities. He can say and prove that credit, wide, liberal, beneficent credit, belongs to the era of liberty, and that it was unknown even in free England until after the expulsion of the

*As late down as the reign of William and Mary, the courts of England refused to consider an inland bill of exchange a legal instrument; nor was it until the time of Anne, that a promissory note, in the hands of an endorsee, could be collected by law, of the maker. Still, again, about the middle of the Fourteenth Century, we meet with the origin of public scrip in the governmental certificates of Florence, which, I suppose, were the first ever issued in Europe. Thus, we have five elements in modern banking. Two others, namely, those of discount and circulation, were yet wanting. Neither power was conferred upon the Bank of Amsterdam, which, founded near the opening of the Seventeenth Century, was designed merely, as it would seem, to check the evils of a clipped and worn metallic currency. Nor was the Bank of Hamburg, which was established immediately after, hardly more than an institution for deposit and transfer. In the progress, however, of civilization, or commercial dealing and necessity, we come at last, and toward the close of the Seventeenth Century, to the Bank of England, which was invested with authority to receive deposits, to buy and sell exchange, to aid in the management of public securities, to discount promissory notes, and to issue a paper currency. And so it appears from this rapid view, that more than five hundred years elapsed before all the elements of modern banking are combined, arranged, and reduced to a system in which statesmen and merchants reposed confidence.

Stuarts, and until the revolution there had secured personal freedom. He may stand upon the emphatic declaration of a great statesman,* that the system of credit, as it now prevails, is the vital air of commerce, and that "it has done more, a thousand times, to enrich nations than all the mines in all the world." He should, indeed, admit that its fluctuations, its ebbs and flows, sometimes cause desolation and ruin; yet he should not fail to insist that good and wise men steadily strive to improve it—that, as sweeping conflagrations allow of the straightening and widening of streets, and as disasters in traveling by steam suggest more careful management and better machinery, so do bank failures and the delinquencies of bank officers, however appalling the circumstances at the moment, serve to discover and to apply new checks and new remedies.

If your bank is old enough to have been through "a crisis," and if you have not served in it as an inferior officer, you have much to learn of its past business. Such an institution, for example, has a "suspended debt" account, or at best overdue paper secured by mortgage or other collateral; and assets of this description always have a history, and sometimes a very intricate, a very perplexing one. But you must become master of that history. Directors change every year; and in a little time, all who were at the "Board" when this class of paper was taken will have vacated their seats; while, then, some are still in the direction, make written memoranda of the principal facts.

Let it be manifest to your associates and stockholders, that you feel an interest in everything which relates to their welfare. To work the whole of your capital and of your deposits, to keep both actively employed at all times, and yet to be always able to meet the demands on you, require great wisdom; and the most skillful and experienced financiers sometimes find themselves at fault for the moment. Your duty requires continual experiments to effect this great object.

Need I suggest the benefits of a fixed system, and of method, even in matters seemingly of little consequence? Everybody finds—as seamen have it—that "a stern chase is a long chase." The business of to-day should never be deferred till to-morrow. Answer letters, and file papers, at the instant. Remember everything, if possible; but trusting to memory in nothing; let your books contain a record of all transactions. Allow no outstanding bills against the bank; and have a voucher for the smallest item charged to "Expense Account."

You can be, and you ought to be, ready for an "examination" by the "Commissioners," or other functionaries of the government, and of your own "Board," without previous notice, and without the slightest special preparation. In fine, close your vaults daily with the reflection that no act has been neglected, and that, if sickness or death should occur "the bank can go on" with no loss to your family, sureties, or stockholders.

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*Mr. Webster.

Do not smile, if I add, that your banking-rooms should be swept, and your desks and counters be dusted daily; that one "slut-hole" is ample for all the twine and waste-paper; and that the accumulations of official papers and memorandums in your private drawer will cause both you and your associates serious delays and much inconvenience.

Panics and pressures are as certain in banking as storms in winter. When either exist, firmness and courage, if not really possessed, must be assumed. You are presumed to know the nature and extent of your resources under all circumstances, and at periods of general distrust especially; and if the amount of those immediately available are insufficient for every possible call upon you, thus advise your directors without delay.

A knowledge of human character is indispensable. Study it. The "actions, looks, words, and steps" of your customers "form an alphabet;" and your "eyes are spectacles to read others' hearts with." Careful, close, and continued observations will enable you to detect a counterfeit man as readily as you now do a counterfeit bank note. My own experience is, that those who change countenance, or the weight of the body from one foot to the other, when meeting a full, searching and fixed gaze, are not truthful; that those who ask for additional accommodations, prefacing the request with a story divided into acts like a drama, are already bankrupt; and that those who petition in whispers, in an unnatural tone of voice, in a cant, or a whine, are hypocrites. Some years hence, I shall be glad to ascertain how nearly your experience accords with mine.

You should be courteous and respectful to all. Self-command is a great virtue; indulgence of passion is a great fault. Impertinence and stupid ignorance might sometimes be rebuked, were it not for the danger of contracting a morose and irritable habit of speaking. There is no loss of dignity, or of self-respect, in perfect silence under the greatest provocation, and that, accordingly, is your safest course. The cashier's popularity or unpopularity gives character to a bank. The directors are seldom visible, and sometimes unknown to occasional customers; but their executive officer is an ever-present and a known man, and should bear in mind the Latin proverb namely, to "be cautious what he says, when, and to whom."*

Should you acquire a reputation, you may be solicited to change your place; or, becoming discontented, may seek to do so on your own motion. In the former case you are to consider your directors as your friends, and, stating all the facts fairly, obtain their views before taking a single step to meet the overture made to you. This is an imperative duty; and performing it in honor, and acting under the advice

*A "bill-broker," says Mr. Windham Beaves, "should avoid babbling, and be prudent in his office, which consists in one sole point, that is, to hear all and say nothing."

of wise counselors, you can hardly come to a wrong conclusion. I assume here that your bank is sound, and that it is under the direction of competent and safe men. If unfortunately otherwise, if your reputation be at stake, and your directors, or a governing part of them, are ignorant or regardless of the principles of banking, or are "speculators," who seek their own accommodation, you should retire at once. But upon this point I will not dwell, since it is to be hoped that such institutions and such men have nearly passed away.

It is related that the eminence of the five brothers Rothschild, as bankers, is to be attributed in a great measure to their strict observance of their father's dying injunction, to "remain united." Well may it be so. Unanimity in the direction of a bank is always an element of success; and the result of my observation in this regard is, that more losses occur from divisions, than from any other single cause. Accommodation notes, large and standing loans to particular parties, and similar departures from legitimate banking are only to be tolerated in cases which receive the assent of the entire direction. Yet I have known one and all of these departures to be consummated, time and again, by directors who owned the smallest possible amount of stock, in opposition to the remonstrances of older and abler associates who were large stockholders; and years afterward, when legal remedies had been exhausted, and levies and set-offs had failed to restore more than costs of suit, have personally made wearisome journeys and devoted weeks to the service of closing up, as I best could, these unfortunate illustrations of the rule that "a majority should govern" in the directors' room, as in politics. In short, such, in my view, are the evils of the majority principle in this connection, that I would counsel a cashier, whether young or old, to insist upon a reasonable change, and a change refused, to seek an institution more wisely, more safely conducted.

You may be discontented without cause. I remember to have read a story, in which one of the characters was in possession of everything that heart could ask, but was miserable from this very circumstance, or because he wanted—a want. Such persons exist in real life. Be not of that unhappy class. Accommodate yourself to your condition. Do not seek for happiness in change of place, but in change of disposition. "The lazy ox wishes for the trappings of the horse, and the steed sighs for the yoke," is an old saw that has not yet lost its meaning. Nor should the topic be dismissed without recalling the pithy epitaph composed for the hypochondriac, who quacked himself into his grave: "I was well; but by endeavoring to be better—am here." Let the young cashier heed the moral contained in these several apt sayings, and remember that care and perplexity exist everywhere. To smoothe and fashion the rough stone of life is a religious duty. The change of one's home involves a change of society, of privileges of

worship, of schools, of facilities in traveling, of household expenses, of access to books, and various other essentials; and should be carefully considered in every aspect before it is actually undertaken. And I bestow the more attention upon the point, because the propensity to remove from one place to another is so common, and because within the circle of my acquaintance, many have been ruined, and but few have improved their condition or increased their happiness, by seeking a new abode. In middle age, the experiment is doubly hazardous. Take up a full-grown three, and will it live unless some of the old earth go with it? Sunder the ties of sympathy and affection; exchange old faces and associates for new ones, and what is the condition of a man?

To resume my personal address to the young cashier, you should not possess an overweening desire of praise, nor invite commendation. Nor should you be intoxicated with your own merits.

You should never speak of your official acts, except in explanation and in self-defense. In all pleasantry, I will add, that, in old age, you may tell the son who succeeds you what you were in your youth; but, now, be content with the quiet appreciation of others. Delicate attentions and marks of respect are the surest and best manifestations of regard, and if you have these, do not pine in discontent or discouragement.

In your official intercourse with the president and directors, observe great deference; and at the "Board" it may be proper to address the former by his title.

Never speak of the real or supposed faults of character of a director in the social circle, nor bear tales or remarks from one director to another. Whatever your preferences, likes, and dislikes—and you will probably have both—your conduct should be uniformly respectful to all. Whenever your opinion is asked, or given, without solicitation, state your views modestly, and in a conversational tone of voice. Should the "Board" differ from you in judgment, and decide contrary to your convictions, betray no feeling, but promptly and cheerfully execute their vote.

Frequent communications with the directors, relative to the general concerns of the bank and to your own particular duties, will be of essential service; since they will thus obtain a knowledge of details, and you will have the benfit of their reflections and suggestions. "Conference," says the wise Lord Bacon, "maketh a ready man."

Your style of living is a matter of momentous consequence; and, possibly, the hinge on which your final destiny will turn. Not only live within your income, but so regulate your expenses that, unavoidable misfortunes or sickness excepted, you shall be sure to save at least a quarter part of your salary, as a fund for old age, unless, indeed,

your patrimonial estate be ample for such a purpose.* But, whatever be your receipts or expectations from other sources, do not allow your expenditures to exceed your personal earnings. Be this the great economic maxim of your life.

Economy is the parent of honesty, of freedom, and of mental ease and quiet. Poverty can never enter your abode, if content with satisfying your real wants; while you will never enjoy independence, if you live in accordance with the world's caprice.† If you possess an inordinate craving for great wealth, or a desire to indulge in luxuries and amusements such as men of fortune alone can afford, you have mistaken your profession, and should abandon it. For your life, if you remain in it, will be a perpetual struggle against your natural inclinations; and the danger is, that, finally yielding to them, you will involve yourself in irretrievable woe.

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*I designed to say a word in the text on the subject of salaries. As a general rule, the compensation to bank officers is too small. According to a return to Parliament, in 1832, the number of persons employed in the Bank of England and its branches, was nine hundred and forty, who (to average the salaries) received only £225, or about eleven hundred dollars each, per annum. Since several who filled the higher posts were paid very much larger sums, it is evident that a considerable part of this numerous corps could not have received more than a moiety of the above average. Yet, as at the same time there were one hundred and ninety-three on the pension list who enjoyed annually (on the average) £161, or about eight hundred dollars each, the faithful officers of that institution who were then in actual service, could hope for relief in their declining years. In the United States, the system of pensions is not, perhaps, practicable or desirable. But since marriage, a flock of little ones, the owning of a house unincumbered with mortgage, and a choice collection of books, are all Virtue's sentinels, directors ought always to have reference to the support of a family in fixing the compensation of their executive officers. Indeed, such officers, like capable and faithful men in other pursuits, should be allowed to provide something for old age. It is fair, I suppose, to assume that the expense of the executive department, as a common thing, is not far from one per cent. on the capital stock, or, in the proportion of one thousand dollars salary to one hundred thousand dollars capital. If this be so, it is manifest, at a glance, that a large part of the bank officers in the United States (as gentlemen are now compelled to live both in city and country) are required to consult the maxims of "Poor Richard" every day in order to secure a moderate competence. The interests of stockholders are not promoted in the long run, by low salaries, for low salaries not infrequently, as experience shows, induce speculations in stocks, and other irregularities, which terminate in defalcations. As a class, bank officers are not so well paid as officers of railroads and manufacturing establishments, while their duties are quite as responsible.

†The great English banker, Thellusson, who, at one time, was partner with Mr. Neckar, the celebrated French financier, left three sons, and a fortune of three and a half millions of dollars, which estate, he said, he acquired by "industry and honesty." In his will he remarks: "It is my earnest wish and desire that my sons avoid ostentation, vanity, and pompous show," etc. The three, it may be added, became members of the House of Commons, and the eldest, a peer of the realm.

The road to disgrace is short. Persons who have traced the footsteps of more than one unhappy bank officer that has trodden it, have found that extravagance and defalcation were but a few strides apart.* A sensual man is disqualified, by his very physical organization, for any office in the executive department of a bank, and ought no more to be there than in a pulpit. I make the remark considerately—for good reasons—and not to round out a period. And should this essay meet the eye of the father of a son ready, by age and education, to enter upon some employment, I venture to counsel that, if banking be thought of, the moral qualities and the strength of the appetites, as developed in the early life, are the first things to be considered. The youth who, in childhood, stole slyly to the closet for his mother's sweetmeats, who was never content at table with the share of niceties allotted to him, who shirked his known tasks, and imposed their performance upon a younger and more dutiful brother, and who, as years wore on, evinced a disposition to rely upon others, and to earn nothing for himself, but yet who showed a determined purpose to feed on the best, and to dress in the finest—such a youth, though as quick at figures as Colburn himself, should never be placed in a bank.

"Speculation in stocks" is another fruitful source of ruin, and I cannot forbear a word of admonition. The careful investment of your earnings or patrimony, and a similar service for friends and customers, define, in my judgment, the general limits of your operations in the stock market. To say nothing of the hopes and fears consequent upon the adventures of a dealer, and nothing of their influence upon your mind and temper—already sufficiently tasked—I may ask, in all seriousness, what assurance have you, what assurance can you have, that your virtue will resist the temptations sure to beset you? Once embarked and afloat on the stock exchange, either alone or with partners, you cannot move without means: and who shall answer for the money intrusted to your care? Who shall answer that you will not "borrow"

*"The London banker of the old school," says Mr. Lawson, "had little resemblance to the modern gentleman who is known by the same title. He was a man of serious manners, plain apparel, the steadiest conduct, and a rigid observer of formalities. As you looked in his face, you could read in intelligible characters that the ruling maxim of life, the one to which he turned all his thoughts and by which he shaped all his actions, was: 'That he who would be trusted with the money of other men should look as if he deserved the trust, and be an ostensible pattern to society of probity, exactness, frugality and decorum.'" And further, says the same writer: "The fashionable society at the West End of the town, and the amusements of high life, he never dreamed of enjoying, and would have deemed it nothing short of insanity to imagine that such an act was within the compass of human daring, as that of a banker lounging for an evening in Fop's Alley at the opera, or turning out for the Derby with four grays to his chariot, and a goodly hamper swung behind, well stuffed with perigord pies, spring chicken, and iced champagne."

from your vault—as others have done—feeling sure that you can "return" the sum you need "in a few days with interest?" At the outset you will not "risk much;" you desire only "to gain something to add to a moderate salary." But encouraged, at length, by your own success in small operations, or excited by the real or reported good fortune of those around you, the resolution may be formed to win a competence at a single cast of the die; you lose, and are ruined! Be warned, I entreat, in time. No bank officer—in charity, we may believe—ever meant to be a defaulter; no one, at the beginning of an irregular course, thought defalcation and disgrace possible. Yet, alas for the many victims of self-deception! alas for the self-confident, and for those who neglected the great duty of self-examination! Most affectionately and earnestly do I charge you, as you value your peace, as you would save your integrity, as you would not be driven forth, a broken and shunned man, to resist every seduction of avarice from within, and every solicitation of companions from without. No matter what pretense or excuse a stifled conscience may allow you to frame, the cash in your vault is not your cash and you touch it for your private benefit, or relief even, as a robber, and at the peril of your soul! Think, ere you yield, of the long roll of sad-faced men who once were honored and trusted, but who, when tempted, fell! Think of those who, wrecked in character, in fortune, and in hope, have become bloated, ragged wanderers! Think of those of whom fathers and mothers, and even wives and children, dare not speak save in whispers, and at the family fireside! Think of those who have been hurried to the prisons and to the tribunals! Think of the graves of the suicides!

A single warning more, and I pass to less painful topics of discourse. Allow no customer to overdraw his account upon your own responsibility or without the express sanction and authority of directors.* The habit is a bad one, every way, under any circumstances; and I wish it could come to an end at once, everywhere and forever. But if it be permitted in particular cases in your bank, have neither part nor lot in the matter, save to execute a positive order. Discourage the practice in every possible manner, and if fortunate enough to put an end to it, you will deserve the praise of every correct banker in the country. At your post, and in bank hours, you are to have no friends to indulge with favors, no enemies to punish with refusals. Then and there all men should be alike to you. The motto of the Banker's Magazine should be yours, without reservation or condition.† In fine, perform no act that you would omit in the presence of the full "Board,"

*I believe that no customer of the Bank of England, whatever his rank, is allowed to overdraw.

†"No expectation of forbearance or indulgence should be encouraged. Favor and benevolence are not the attributes of good banking. Strict justice and the rigid performance of contracts are its proper foundation."

or in that of the sureties on your official bond. This rule will carry you safely through every difficulty and every temptation.

Pardon me if I now suggest the importance of maintaining a reputation for strict, exact veracity. An aged judge is said to have remarked, ironically, that "half the cases he had tried on the bench arose from good understanding between the parties;" and by this he meant, that half-made bargains and agreements lead to disagreements and litigation. Avoid misunderstandings from this source. Many, indeed most, of your transactions will be upon verbal contracts. But you may use words so terse, so precise, that misconception will be hardly possible.

The honor of a cashier and the honor of a woman are alike. Suspicion of either in the public mind is as fatal to reputation as convicted guilt. Stand by, stand for your honor, then, against all comers, and to the last. Preserve your own respect, though you be fed by the hand of public or of private charity. Napoleon, at the hour of his downfall, deposited the remains* of his fortune with Laffitte, and refused an offered and customary certificate, saying: "I know you —I hold you to be an honest man." The Paris banker, in the course of events, became a cabinet minister; but such a testimonial to his probity from a man whose estimate of human virtue was too low to be just, and who, at the moment he uttered it, was, as he imagined, the victim of faithlessness and treachery, will be remembered when the records of his political honors are torn and scattered. But yet, any man, in his own circle, may, if he will, have it said of him: "I know you—I hold you to be an honest man." My young friend—now starting upon a banker's career—burn these words deep into your memory!

As in some things there are marked distinctions between banks in different sections of the country, and between country and city banks in the same State, and corresponding differences in the duties of a cashier, it is obvious that no series of "suggestions" can be alike applicable to all. But I may still hope that the young and inexperienced officer will not fail to find some useful hints in the preceding remarks, whatever his particular position or special charge.

And while this may be so, the country cashier may yet need cautions and recommendations adapted to his peculiar official and social relations. Such, then, as I deem the most important, I shall briefly and respectfully offer. First, as it sometimes happens that the person selected for the executive department has had little or no experience in banking, and is to be connected with directors whose knowledge is as limited as his own, the duty of consulting well-informed officers of city banks is manifest. The country cashier is often alone. Without paying or receiving tellers, bookkeeper, or discount or collection clerks, but invested with the functions of all, skill, system, and an

*Five millions of francs.

economical use of time, are indispensable to success. I have known gentlemen who, though possessing quick and clear perceptions, and almost every other natural endowment, were still, at the time of their election, incapable of opening or of properly keeping a single bank-book. Some of these, remarkably cautious in their habits of business, and profiting by mishaps, escaped serious losses, and, in the end, became accomplished officers; while others, more sanguine in temperament, and more self-confident, and unwilling to seem novices, involved themselves in difficulties which caused them much mental disquietude and pecuniary embarrassment. Now, it is apparent at a glance, that both classes, had they started right, might have avoided a great deal of painful experience.

I commend to you, therefore, if not bred to banking, the sources of information, which are open to you, and to all who desire to increase their knowledge. Accuracy in the count of money is the first, accuracy in the keeping of accounts is the second, qualification in a country cashier; and, while you may acquire the first by practice, you may go wrong with your records all your life.

A small bank should be conducted on a plan as systematic and as regular as a large one. Experience has shown, I think, that bank accounts should be kept in "double entry," and that each department of bank business requires a separate book. Thus in an institution with a capital of only fifty thousand dollars, I consider that a general and deposit ledger, that books for cash, deposits, discounts, credits, collections and trial-balances, are as essential as in one of a million of dollars. And the same remark is true of stockholders' and directors' records, of a book to show the state of the bank, and of another to exhibit the paper to mature in any given week.

The general and the deposit ledger may be one; the former occupying some seventy-five or one hundred pages, and embracing accounts with things, the latter with persons. The cash should be settled daily at the close of business, when, also a trial balance should be taken of the general ledger postings. On the last business day of the month, the depositors' accounts should be adjusted, and the balance of each be transferred to the trial-balance book to ascertain whether the deposit ledger has been correctly posted. The daily settlement of the cash—neglected in some country banks, unless the reform has been very recent—need occupy but a few minutes, since a vault book accurately kept, leaves for actual count the cash in drawer only. "Memorandum checks," and similar vouchers—to say nothing of the grave consequences which sometimes result from their use—are great pests in a cashier's drawer, and should not be allowed there, except in the most urgent cases. Some cashiers keep "ragged bills," never intended to be reissued, in vault for months, and even years; but the practice is attended with obvious risk and inconvenience, and should not exist.

As already intimated in another connection, your directors, how-

ever worthy and respectable as citizens and gentlemen, may be poorly versed in the science of banking, and may not, at first, appreciate the force and the reason of the rules which you deem necessary to adopt in transactions with them and with others. But evince no impatience. I assume that a majority of any and of every "board" are men of honor, and mean to do right; and that, in explanations and conversations with yours, you have but to calmly point out the evils likely to arise from a course opposite to that which you insist upon, to obtain their approbation. Yet you yourself should be well assured that these rules are consonant to law, or are such as are imposed in well-regulated banks, or such as, in your peculiar position and relations, are imperatively demanded.

It is possible that your predecessor allowed improper indulgences to a particular director, or had favorites among your customers, and that you will feel constrained to put an end to these and to similar irregularities. To accomplish this, in harmony, will require all the wisdom and good-nature that you can command. It is possible, too, that overtures may be made to you to grant favors inconsistent with your duty; but, as such cases will arise from thoughtlessness or ignorance, as often as from unworthy motives, you should be silent, except when corrupt intentions are too apparent to be mistaken, or the importunities of the same person become so frequent as to be troublesome.

The customers of a country bank, unlike the merchants of large and busy cities, expect of the cashier some inquiries about their families, and remarks upon the news of the day, upon the crops, the weather, and other matters of personal or local interest. To a reasonable extent this expectation should be gratified. But discussions across your counter on topics of sectarian theology and party politics are to be avoided—entirely avoided. Nor, if you hear, should you reply to, or take part in, tales of scandal and neighborhood gossip. Polite to all, sociable to a degree not to interfere with your duties, inviting and giving friendly greetings, your deportment is yet to be dignified, and such as becomes a well-bred gentleman.

You will transact business with persons who cannot even write a note of hand in proper form; with those who cannot be made to acknowledge the necessity of a notice to an indorser; and with those who will pertinaciously insist upon having their own way, whatever your reasoning or objections to the contrary. Teach the ignorant, without giving them pain; be firm with the self-willed, without evincing impatience or anger; for the smart of a sharp word, or of a proud toss of the head, is sometimes felt for years. "Contempt," says an Eastern proverb, "will penetrate the shell of a tortoise;" be sure to remember it will pierce deeper into the epidermis of a fellow-man.

To require, and to insist upon, regular bank hours will occasion some difficulty in some places. People whose business at banks is rare, seem to forget that a cashier, like other men, has a love of fresh air,

or that he needs exercise and relaxation; and thus cannot or will not understand why he is not ready to accommodate them early in the morning, and late in the evening. These persons seek him in his moments of rest and recreation, ask him to receive money at his house, or in the village stores, and complain if he refuses such reasonable requests. You will be unjust to yourself if you submit to these, or to similar demands. The intervals between bank hours are yours by positive contract, and by the very necessities of your physical and mental being. Do not permit inroads upon them, save in extraordinary exigencies; in these, leave your bed even, to serve a customer. Still, as loose and unsafe habits may have been encouraged by your predecessors, or countenanced by directors, measures of reform will be odious unless gradual. Under kind and considerate treatment your laggards may become punctual, and untimely requests to open your vault entirely cease.

A single "suggestion" more. The private and social relations of a country cashier are of consequence, and ought not to be overlooked. And, first, a salary officer, under ordinary circumstances, needs not to be in debt for his personal or family expenses; and, as cash payments are sure to show whether he is "living beyond his means," may I not commend the safe rule of "paying as you go?"

Again, may I not be allowed to suggest the duty of constant attendance at church, even though you cannot worship with persons of your own faith; and also of manifesting an interest in schools, public lectures lyceums, and other means employed to promote the welfare of society? The community in which you live has a claim upon you, not only for an exemplary life, but for contributions of money in proportion to your ability, to aid in the maintenance of the religious, literary and benevolent associations established among them.

To conclude. Should it be thought that I might have omitted the discussion of some topics, and have treated others with greater brevity, I submit, with deference, that I have endeavored to be a careful observer. More than twenty-five years have elapsed since the commencement of my connection with banks and banking; and, as I now look back and recall the facts elicited by judicious inquiry, and the facts embraced in other well-authenticated accounts which relate to bank officers who have fallen, never again to rise, or whose lives have been saddened and embarrassed by want of firmness in resisting the allurements of pleasure, or the solicitations of the companions of their social hours—by an overweening self-confidence—by too great faith in others; as, too, I remember the complaints against another class, who, though without a moral stain, have still injured themselves and the institutions with which they are concerned by churlishness and irritability; I find no cautions and admonitions to omit, no recommendations that may not, I think, assist in forming the character of the officer for whom these suggestions are intended.

A single word more. Many of the cashiers whose private virtues and professional ability adorn the annals of banking in the United States, receive salaries nearly equal to the emoluments of cabinet ministers, or military officers of the hightest rank, and are intrusted with powers so ample, that they seem to be private bankers, wielding their own capital. These gentlemen have attained the crowning honors of their profession. Let the "young cashier" aim to reach the same eminence among men and among bankers. Let him remember that, whatever the influence of friends at the outset of his career, his position in the maturity of his years must, in the very nature of things, depend upon himself, upon his capacity, his courage, and his probity.

I have here spoken to him as to my only son, and take my leave, in the earnest hope that, in the labors of some one of his seniors, communicated to the "Magazine" upon the invitation which, perhaps, I have unwisely accepted, he will be sure to find a path marked out for him which will lead him to the rewards of a well-spent life.

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